ALAGAPPA UNIVERSITY

(Reaccredited with 'A' Grade by NAAC)
Karaikudi - 630 003, TAMILNADU

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DIRECTORATE OF DISTANCE EDUCATION

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M.B.A /MM

Paper 4B1 4·1

International Marketing

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MBA

Paper 4B1
International Marketing

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Paper 4B1: INTERNATIONAL MARKETING

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:EFERENCES:

1. International Marketing, Analysis & Strategy : Sak Onkvisit & John J Shaw
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CHAPTER-I

INTERNATIONAL MARKETING

The objective of this lesson is to make the students to understand,

i) international marketing and its environment,

ii) international dimensions of marketing and

iii) benefits of international marketing.

1.1 INTRODUCTION

Philip a Kotler and Gary Armstrong in their book 'Principles of Marketing' have explained that "Global industry is one which the competitive positions of firms is given local or national markets are affected by their overall global positions".

Therefore, a global firm is one that, by operating in more than one country, gains marketing, production, R&D and financial advantages that are not available to purely domestic competitors.

The global company sees the world as one market. It minimises the importance of national boundaries and raises capital, source materials and components and manufactures and markets its good, wherever it can do the best job. Thus global firms gain advantages by planning, operating and co-ordinating their activities, on a worldwide. William J.Stanton, Michael J.Etbel and Bruce J.Walker have explained International marketing in their book Fundamentals of Marketing, as an organisation whose produces are marketer in two or more countries is engaged in International Marketing.

International Marketing is defined by the American Marketing Association as, "the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational objectives".

Marketing is defined by the American marketing Association as, the performance of business, activities that direct the flow of goods and services from producers to consumers or users'. The phrase in more than one country' is added with the definition of marketing to define International Marketing.

International Marketing means the performance of business activities that direct the flow of goods and services from producers to consumer or user in more than one country.

Warren J.Keegan in his book, Global Marketing Management, defines Global marketing, as "the process of focussing the resources (people, money and physical assets) and objectives of an organisation on global market opportunities and threats". Warren J Keegan has drawn a line between export marketing and international marketing. He has stated that export marketing in the first stage of addressing market opportunities outside the home country. Export marketer targets markets outside the home country and relies upon home-country production to supply product for these markets. Experiences exporters will study target markets and adopt products fulfil the specific needs of customers in each country. Warren J.Keegan has expressed that international marketinþg goes beyond the export marketing and becomes more involved in the marketing environment in the countries in which it is doing business. International marketer procures materials and components from other countries to avail greater competitive advantage. Role of intermediaries is gradually minimised and international marketers involve directly in the foreign market for planning their suitable marketing mix.

A separate form of organisations known as international organisation is established to take care of international marketing activities exclusively in target markets.

1.2 SCOPE OF INTERNATIONAL MAREKTING AND INTERNATIONAL MARKET ENTRY STRATEGIES

There are various export market entry strategies to enter into a foreign market. Once a company has decided to enter into a foreign market, it has to identify suitable export market entry strategy.

Entering into global market is a challenge. It deals with a lot of market research and requires to assess cultural, political, legal and economic environment in international marketing. Many countries will participate in the global market.

Demand and supply are even changing factors in global market. Assessing demands and present supply in the global market is really a challenge to the players of the international market.

After liberalization, even the domestic market depends upon the changes in the international market. In India, domestic coffee prices are influenced by the demand and supply of coffee in the international market. In India, edible oil prices are reduced due to increase in supply of edible oil in the international market.

Crude oil supply cut in the international market makes increase in the prices of petroleum products. Regional grouping such as, free trade area, common market, economic union etc., play a vital role in the international market in order to maximise trade among the member countries of the regional groupings. Exporters should observe the above challenges in the global market and adopt suitable entry strategies to enter into the global market.

International market entry strategies are listed below:

1. Exporting
2. Contractual Agreement
   - Patent Licensing Agreement
   - Turnkey Operations
   - Coproduction Agreements
   - Management Contracts
   - Licensing
3. Joint Venture
4. Manufacturing (Ownership)

1.2.1 Exporting

Exporting is the traditional form of entry into international market. It is a easy way to gain international experience. There are two types of exporting. They are direct exporting and indirect exporting. Direct exporting takes place directly between manufacturer of the exporting country and buyer of the importing country. Exporter under direct exporting is called Manufacturer Exporter. Intermediaries or agents are involved in indirect exporting. Intermediaries do not product goods. They procure goods from manufacturers and export to foreign countries. The intermediaries are called Merchant Exporters.

Exporting does not require any investment in manufacturing operations in foreign countries. It is a low-cost alternative to enter into foreign markets.

Export requires licenses support of the freight forwarders or agents, export finance etc. Export procedures and documentary formalities should by fulfilled by the exporters for exporting. Of later exporting is also required some investment to be made for the purpose of constructing godowns in foreign countries to supply goods to the importers immediately without any delay. In exporting, manufacturing takes place in one country. It makes scale economies and leads to minimise the cost of manufacturing.

Important factor to be kept in mind in exporting is that the manufacturing centre is located far away from the consumption centre. So it requires extensive marketing research to ascertain needs and wants of the users in foreign countries. Major share of India's overseas business depends on exporting. It is a popular mode of entering into foreign market globally.

1.2.2 Contractual Agreement

There are various types of contractual agreements. They are explained below:

Patent Licensing Agreements

These agreements are based on either a fixed few basis or royalty basis. Managerial training is also included under this agreement.

Turnkey Operations

This type of agreement is based on a fixed few or cost plus management. Turnkey operations include managerial (personnel) trainings plant construction and initial production run.

Coproduction Agreements

This type of agreements are common in socialist countries. Under this agreements plant are built and then paid for with part of the output.

Management Contracts

Under this contractual agreements a multinational enterprise will provide managerial personnel to operate and manage foreign enterprise for a few until the local employees acquire managerial skill to run the enterprise independently.

This type of management contracts are popular in middle cost countries.

Licensing

Subash C. Jain in his book 'International Marketing Management' has stated that "Licensing encompasses a variety of contractual agreements whereby a multinational marketer makes available intangible assets such as patents, trade secrets, know-how, trademarks and company name – to foreign companies in return for roya!ties on other forms of payment. Transfer of these assets is accompanied by technical services to ensure proper use".

Warren J.Keegan in his book 'Global Marketing Management' has expresses that "A company with technology, know-how or a strong brand image can use licensing agreements to supplement its bottom-line profitability with no investment and very limited expenses". Without and investment we can enter into foreign market through licensing agreement.

Allen C. Reddy in his article "International Licensing May Be Best Bet for companies Seeking Foreign Markets" published Marketing News (1982) has summarised merits and demerits of Licensing. They are given below :

Merits

1. Licensing requires little capital and serves as a quick and east entry to foreign markets.
2. Licensing provides life extension for products in the maturity stage of their life cycles.
3. Licensing is a good alternative to foreign production and marketing in an environment where there is worldwide inflation, skilled labour shortages, increasing domestic and foreign Governmental regulations and restrictions and cut throat international competition.
4. Licensing royalties are guarantees and periodic, whereas income for investment fluctuates and is risky also.
5. When exports no longer are profitable because of intense competition, licensing is an alternative to participate in the foreign market effectively.
6. Licensing does not involve and transportation cost, which make some exports noncompetitive in the emerging as well as target markets.
7. Licensing is also immune to expropriation.

Demerits

- To attract licenses, an enterprise should possess specific and distinctive technology, a trade mark and a company of brand name is attractive to potential foreign users.
- The licensor has no control over production and marketing by the license.
- The licenses may loss interest in renewing the contract of license unless the licensor holds interest through innovation and new technology.
- There is a problem of creating competition in third, or even home markets if the license violates territorial agreements. Going to court in these situations is expensive and time consuming.

1.2.3 Joint Venture

Joint Venture with a local partner is a more or less risky alternative and it involved various levels of direct investment. Joint venture is an extensive form of entry in foreign markets than either exporting or licensing. Allen R Janger in his book 'Organisation of International Joint Venture' has expressed that 'Joint Ventures provide a mutually beneficial alternative to domestic and foreign businesses to join forces. For both parties the ventures are meant to share both capital and risk and make use of each other's technical strength'. Peter Killing in his paper, 'How to make a Global Joint Venture' published in Harvard Business Review, May-June 1982 has stated that 'Joint Ventures, however, are not an unmixed blessing. The major problem in managing joint ventures stems from one cause; there is more than one partner. With patience and flexibility on the part of both partners, joint ventures can be managed successfully. But one of the partner must plan the key dominant role to steer the business to success.

Sharing the rewards and risks is an important feature of joint venture. Companies having indepth knowledge of a local markets, excellent distribution systems, access to low cost materials on labour can enter into joint venture with a foreign partner possessing considerable know-how in the area of technology, manufacturing and process applications. In general, joint ventures deal with seeking market opportunities, preempting raw materials, risk sharing, developing an export base and selling technology. Easy access to market and market information and low cost requirement are important advantages of joint venture.

1.2.4 Manufacturing

Manufacturing (100 percent ownership) is one of the forms of global market entry and it could be achieved through acquisition or start-up. Manufacturing requires huge capital and managerial effort to steel the business to success. Companies may switch over from licensing or joint venture to manufacturing for the purpose of greater expansion in the global market. The problem of conflict interest in joint venture has no place in manufacturing. Ownership or manufacturing requires extensive market survey before investing in foreign market for creating manufacturing facilities. The market survey will reveal strength, weakness, opportunities and threat in foreign market.

1.3 BENEFITS OF INTERNATIONAL MARKETING

There are certain advantages in export marketing. So nations involve in foreign trade in the competitive world market. International marketers assess their market opportunities in the international market to enjoy the benefits in that market. The benefits of export marketing are listed below:

- Foreign exchange earnings
- Employment generation
- Optimum use of resources
- Development of services sector
- Improvement in standard of living
- International relations
- Solving balance of payments problem
- Economic development
- Globalisation
- Increase in functional efficiency
- Spreading risk
- Facility to import and
- Export obligation

1) Export earnings is a potential source for increasing foreign exchange reserve of a country. Foreign currency earnings will help to meet import commitments and debt service payments. So nations give priority to export sector in their foreign trade policy and attempts are made to identify export potentials in the international market.

2) International marketing is useful to generate employment opportunities in the manufacturing as well as services sector. Production of exportable commodities generate employment in the home country. It creates business opportunities to banking, insurance and transportation sector.

3) International marketing paves the way for optimum use of resources to the enterprises involved in exports. Export production is in addition to the domestic production. The additional production helps the export companies to utilise their resources optimally.

4) Participation of export companies in the international market contribute to the growth of services sector such as banking, insurance and transportation. Banks have to provide export credit. Insurances companies have to provide insurance cover to the exportable commodities. Multimodal transportation services is the felt need for export and import transactions. Growth of export contributes to growth of services sector in the world market.

5) Growth of foreign trade will improve standard of living of the people. Growth of foreign trade generates employment opportunities. Employment generation will increase economic status of the people. Increase in economic status will improve standard of living of the people.

6) Foreign trade builds international relations with other countries. Bilateral and multilateral agreements are made to smoothes international trade among the member countries. Such agreements create economic and regional integration in the world market.

7) Export trade with foreign countries will solve the problem of balance of payments. Increase in export transactions will increase foreign currency earnings. The earnings can be used to meet import commitments and other payments in foreign currencies. Increase in export earnings is a cushion to absorb the problem of balance of payments. In export is reduced, payment

for imports will be a difficult one and problem of balance of payment will arise.

8) Increase in foreign trade is a sign of economic development. The level of participation of developed countries in international market is more than the developing countries. Participation in foreign trade increases employment opportunities, improves standard of living and increases output in production and service sector. In total in contributes to growth of economy as a whole.

9) Foreign trade increases functional efficiency of the enterprises participating in the foreign market. Productivity, cost reduction, product quality, following delivery schedule, optimum use of resources, professionalism in all functions of management are basic requisites for entering into international market. Enterprises having expertises functional efficiency can do better in foreign market. Global marketing experience will lay foundation to the export enterprises to achieve functional efficiency in their all business activities.

10) Exporting commodities to various region, of the world market spreads the risks associated with foreign trade. Fall of market in one region can be compensated with the growth in another region of the world market.

11) Import of capital goods and other accessories are required to modernism and upgrade export sector. Modernisation of production facilities is needed in the export sector to meet global quality norms, reduce production cost, and to compete with the multinational enterprises in the world market. Countries import advanced and sophisticated capital goods and technology to modernism their industrial and export sector. Companies are forces to identify export opportunities in order to fulfil their export obligation. Companies availed duty exemption scheme for import and export promotion capital goods scheme should fulfil their export obligations.

Above all, in the today's globalisation era, countries cannot trade in the isolated environment. Globalisation policies make countries to trade with another countries and in the globalised environment. International Marketing integrates the country's economy with the world economy and market.

Fastest Growing Commodities: Exports & Imports (2000-01)

(Amounts in US $ million)

Commodities	*Weights*	*1999-00 (Apr-Oct)*	*2000-01 (Apr-Oct)*	*% Change*
Exports				
1. Petroleum, Crude, Products	3.1	30.1	773.9	2473.1
2. Primary & Semi-finished iron & steel	2.3	352.8	578.9	64.2
3. Plastic & linoleum Products	1.9	338.6	478.5	41.3
4. Electronic goods	2.0	360.3	506.1	40.5
5. Leather & Manufacturers	3.0	563.3	760.3	35.0
6.Inorganic/organic/agro-chemicals	1.9	358.5	477.0	33.1
7. Manufactures of metals	3.6	720.0	897.7	24.7
8. Readymade garments	13.0	2643.3	3256.5	23.2
9. Marine products	3.1	661.4	781.5	18.2
10. Machinery & instruments	3.4	692.8	854.3	23.3
11. Cotton yard fabrics made ups et.	8.0	1802.1	1996.3	10.8
12. Gems & jewellery	18.0	4207.1	4503.3	7.0
Imports				
1. POL	32.8	5637.4	9771.6	73.3
2. Electronic goods	6.9	1469.6	2046.8	39.3
3. Dying tanning clouring materials	0.5	109.9	147.9	34.5
4. Textiles yarn fabrics made ups articles	1.1	266.2	337.5	26.6
5. Fertilizer crude	0.5	120.0	144.6	20.4

6. Coal coke & briquettes etc	2.2	550.7	650.9	18.2
7. Manufactures of metals	0.8	208.2	225.5	8.3
8. Paper board manufactures & news print	0.9	248.3	265.4	6.9
9. Electrical machinery	0.8	234.0	248.2	6.1
10. Cashew nuts	0.5	140.8	148.6	5.6
11. Professional instruments optical goods etc.	1.6	473.2	489.7	3.5
12. Iron & steel	1.5	445.7	455.4	2.2

Source: DGCI&S, Calcutta

1.4 INTERNATIONAL MARKETING ORIENTATIONS (DIMENSIONS)

There are four basic orientations in international marketing management. They are, (i) ethnocentric, (ii) polycentric, (iii) geocentric anc (iv) Regiocentric.

Ethnocentric is home country oriented. It is assumed that home country is superior. Products produced in home country are superior and they will be marketer in foreign market. It is assumed that ethnocentric oriented companies see similarities in foreign markets and try to export the products they product in the overseas market where similarities of country are prevailed in terms of culture and buying behaviour. In Ethnocentric orientation product adaptation is minimized. Products of home country are exporter without and modifications. Ethnocentric orientation considers home market is primary and export market is secondary. Export market is identified to dispose surplus in the domestic market. Prevailing local conditions in foreign markets and buyers preferences are not given due importance in ethnocentric orientation. Domestic marketing policies are taken as the base for deciding export marketing policies.

Polycentric orientation is opposite of ethnocentric orientation. It is assumed that each host country is unique. Differences in foreign markets in terms of culture, consumer preference, and buyer behaviours are carefully considered and taken into account in all stages of marketing mix and products are adopted to fulfil the prevailing local conditions in the foreign markets.

Subsidiaries are established in target markets for export market penetration. The subsidiaries serve as independent units in the specific locations in the international market and decide their appropriate marketing strategies. Marketing strategies will differ from one subsidiary to another subsidiary based on the prevailing marketing environment. In polycentric orientations marketing strategies are planned country-by-country basis. There is no uniform marketing strategies in this orientation.

Geocentric is a compromise between ethnocentric and polycentric orientation. Under geocentric orientation entire world is considered as single market and there is no particular country or region as target market. In geocentric orientation, "business is "nationalityless" and companies should attempt to loss their national identity. As such, corporation should not mind moving its headquarters to a mere hospitable environment". (Sak Onkvisit, John J.Shaw, International Marketing). Similarities and differences in foreign markets are taken into account and global marketing strategy is planned to fulfil local needs and wants in the global market. In ethnocentric orientation, marketing management is centralized, it is decentralized in polycentric orientation, whereas in geocentric, marketing efforts are integrated. Observing similarities and differences in the global markets integrating similarities and differences, integrated marketing programmes are planned and implemented in the global market. Ethnocentric orientation observes similarities in foreign market and domestic products are extended to foreign market. Polycentric orientation observes differences in foreign market and products and products are policies adapted to match the differences. Similarities and differences in international marketing environmental factors are integrated and suitable product strategies promotion strategies, pricing strategies and distribution strategies are planned accordingly in the geocentric orientation.

Regiocentric oriented companies concentrates its foreign market in a specific region of the world market. Similarities and differences in that region are carefully considered and marketing strategies are planned accordingly.

- Ethnocentric - Home country is superior, sees similarities in foreign countries for participation in the world market.
- Polycentric - Each host country is unique sees differences in foreign countries for participation in the world market.

- Geocentric - Whole world is a single market sees similarities and differences in home and host countries. Participate in all regions of the world market.
- Regiocentric - Sees similarities and differences in a specific world region. Participate in a specific region of the world market.

1.5 Differences Between Domestic Marketing and International Marketing

Differences between domestic marketing and International Marketing are given below:

	Domestic Marketing	International Marketing
1	It deals with identifying and anticipating the needs of consumers in domestic market and their needs	It deals with identifying and anticipating the needs of consumers in International market and satisfying their needs and requirements.
2	Its scope is limited to domestic market	It has wider scope and market is boundaryless.
3	There is minimum risk to business in domestic market	Business Risk is maximum in International Market.
4	Scale of operation in domestic market is less than the international market. Because its scope is limited to domestic market	Scale of operation is very large. Marketers do business throughout the world. Scale of operation of a multinational company is larger than a domestic company.
5	Special incentives are not given to marketers in the domestic market	In International market export incentives and subsidies are given to encourage exports.
6	Profit in domestic marketing is low. Because scale of operation is low	Profit in International marketing is high. Because scale of operation is high.

7	In domestic marketing marketers have to compete with the domestic competitors	In International marketing marketers have to compete with the competitors worldwide.
8	Product promotion strategies are more or less uniform in all parts of the domestic marketing	Product promotion strategies will vary one country to another country in international marketing
9	Legal System is uniform in all markets in the case of domestic marketing	In International marketing legal system will vary country to country.
10	Trade procedure and documentation is a very simple job in domestic marketing	In International marketing trade procedure and documentation is a specialised job. Experts are needed to fulfil the documentary procedures in international marketing.
11	Single currency (domestic/ home currency) is involved in domestic marketing	Currencies of various countries are involved in international marketing.

1.6 INTERNATIONAL BUSINESS AND ITS ENVIRONMENT

International business is a process of marketing goods and services in the international market. Exploring marketing opportunities in the overseas market is the primary objective of export marketing. Exporters should study emerging markets and adapt products to fulfil the specific needs of the overseas customers. Alan M. Rugman and Richard M. Hodgetts have defined International Business as, "the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organizations. International marketing deals with the transactions that take place between the citizens and corporates of different countries.

1.7 INTERNATIONAL MARKETING ENVIRONMENT

International market is a competitive market. It is influenced by not only demand and supply forces of goods and services, but also various marketing environmental factors. In international market consumers from different countries but the products they desire and marketers from different countries sell their products they produce. Japan dominates in electronics and automobiles in the global market. The United States have become leader in information technology, China, Philippine, and Taiwan are potential competitors to textiles exporting countries. South Korean companies have entered into Indian market and try to capture white goods market of India. South Korean companies do their business globally. In global ship building industry, Haundai Heavy Industries (HHI) of South Korea stands first. The HHI has secured a place in the Guinness Book of World Records for its ship building activities. All countries are not competitive in all types of products in the international market.

1.8 CONCEPT OF BUSINESS ENVIRONMENT

Business environment is the 'sum total' of forces and factors that are external to the business and which influence the business in a variety of spheres. Production technology, financing means, personnel systems, marketing effort, and public relation, activities of a business are all influenced by the environmental factors. In a country with restriction on import of labour-saving technologies, production technologies remain mostly labour-intensive. With risk and venture capital available in plenty, businesses assume more risk and enter into hi-tech unnavigated areas. With abundant labour supply in a country businesses benefit by inexpensive labour, but trade unionism might pose challenge to the businesses. Price restrictions, market demarcation, and distributional limitation, might be suffered by businesses operating in a highly restrictive society.

Thus business environment refers to the totality of politico-legal systems, the socio-cultural systems, the techno-infrastructural system, the geo-natural systems, the economic systems, the demographic entrepreneurial system, and the functioning of other businesses in relation to a particular business as competitors, as suppliers, as consumers and the like.

Business environment can be seen bifocally – the immediate and the distant or as the micro and the macro. The immediate or micro environment refers to the firm-specific environmental factors. The 'macro' or the 'distant'

environment refers to the 'general' environmental factors. Generally, firm-specific environmental factor, are due to locational and geo-natural factors. Hotel industry in an industrial city has round the year business with occasional ebbs and troughs, while the same industry in a hill-resort has only seasonal business, with economic, cultural and political dimension, prevailing in the international market determine the level of competitiveness of the countries participate in the international market. International business Environment should be carefully studied to assess the role of economic, cultural and political dimensions in international market. The extent of international market of a company depends upon the economic, cultural and political roots of international marketing system and it becomes essential to study their importance in international marketing. The various dimensions of international marketing systems are given below: occasional demand in the off-season. Thus locational and geo-natural forces are mostly firm specific. But economic, fiscal and monetary policies, political ideologies and systems, etc. are macro affecting all businesses mostly alike. A reduction in interest rates inflow of foreign capital and the like are macro environmental factors.

Business environment is also classified into market and non-market environment. When a business operations are influenced by market forces like demand, supply, consumer fashion, extent of competition among firms in the industry, etc., it is said that market environmental factors are dominant in so far as the business is concerned. Non-market environment refers to governmental policies and programmes, social values and cultural practices and the like.

Business environments in another perspective is divided into 'economic' and non-economic environment. Economic environment refers to the economic systems, economic policies including the fiscal, monetary, labour and sectoral policies adopted, the trends and currents of the national economic factors and variables, economic peculiarities and problems' and prospects, state of the economic developments, economic legislations and the like that affect businesses in general and specially. Non-economic environment refers to the rest of the environmental factors viz., social, cultural, political, marketing, technological, ecological and others. But economic environmental forces and non-economic environmental factors influence one another and the resulting environment influences business in the domestic and International market.

1.9 NATURE OF INTERNATIONAL MARKETING ENVIRONMENT

Export business environment has certain dimensions. These are described below:

(i) International marketing environment varies from country to country as countries differ in their economic, social, political and other factors and perspectives.

(ii) Within the country different regions may differ in business environment due to differences in resource endowments, demographic factors, cultural factors, local political situations, law and order factors and so on.

(iii) International marketing environment has temporal characters as well. Past, present and the future environment aren't or won't be all alike. As economic advances are made, as social values change as political ideologies change and so on, so does the business environment in the world market.

(iv) Marketing environment in existing global market provides opportunities and challenges, both accelerators and brakes, leve and limitations.

(v) The different environmental dimensions, namely political climate, cultural diversity, etc., with different level of influence on different businesses at different places and at different times.

(vi) International marketing dimensions do not pull in the same direction. There is conflict between governmental factors and market forces between economic factors and social factors and so on. Businesses find it difficult to copy with the diverse demands of the diverse environmental dimensions.

(vii) Politico-government dimensions seem to dominate the environment for political ideology and stability set the tone and background for businesses. Government as a regulator of businesses, as a coordinator of businesses, as a facilitator of businesses, as a protector of businesses and as an entrepreneur itself have assumed greater significance than other environmental factors.

(viii) International marketing dimensions are is no longer confined to factors within the boundaries of a nation. Transnational factors like international investment, trade, employment and multilateral institutions like the World Bank, International Monetary Fund, World Trade Organisation, etc influence international marketing environment.

(ix) International marketing system and environment is dynamic, complex and multi-dimensional.

1.10 SINGNIFICANCE OF INTERNATIONAL MARKETING ENVIRONMENT

What a business is, is partly due to its environment. In other words every business is a product of its environment. The influence of environment on business is significantly significant. Take the case of Indian business undertakings. Until 1991, they enjoyed a protective environment. They did not evince interest in exports, in building competitive strength, in Research and Development and the like. No, as economic liberalisation is taking place, businesses address issues relating to 'total quality management's 'strategic alliance' to meet competitions and so on. Thus as environment changes, businesses change their perspectives, strategies, etc. There is no choices but compulsion.

Environment influences international marketing in four ways – it provides opportunities to businesses, it poses threats, it strengthen, and also it weakens businesses. Hence the significance of business environment.

Opportunities are provided by environment. When the culture of a society needs rites, rituals and festivals, industries catering to these needs flourish. When home entertainment culture spreads, businesses in home-entertainment. viz. television, tape record players, etc make good advances. When monetary policy is relaxed more capital at lessen cost is made available. When laws restricting foreign investment are relaxed, businesses can raise east capital abroad, as some Indian businesses are doing now through issue of global depository receipts, Euro bonds, etc. Thus it is environment that provides opportunities. Opportunities must be seized timely and regularly.

Threats are also poses be environment. When finance related laws are relaxed allowing businesses to raise capital freely, local banking businesses find no takers for credit. When foreign companies set up businesses, local firms find

the going difficult. The entry of foreign brands of soft drinks, TVs, etc., is a threat to local brands. The entry of Sony and Panasonic in India in 1995, is a threat to the local brand, like BPL, Videocon, etc.

Environment also strengthen, businesses. An environment that nurtures the culture of efficiency, competitiveness, innovation and growth makes businesses strong. Withdrawal of agri-subsidies in rich countries, strengthen, the agri-export industries in LDCs.

And, environment can also weaken businesses. A policy of the government to protect businesses in effect makes them weak. Withdrawal of fertilized-subsidy has weakened both the fertilised and the agri-industries as them were earlier user to the comforts of protection.

Components of international marketing environmental dimensions are listed below:

International Business Environmental Factors

Sl.No.	Factors	Components
1.	Political	Political system political institutions Environment political ideologies of parties political stability political culture etc.
2.	Government	System of Government distribution of Environment power between national and local Government culture of civil servants Government policy on businesses etc.
3.	Legal	Business related laws governing Environment competition consumer protection contractual obligations regulation of foreign participation respect for judiciary efficiency of the same etc.
4.	Economic	Size of the economy composition of the Environment economy economic health economic policies – fiscal monetary and entrepreneurial foreign capital etc.

5.	Technological	Technological orientations Research Environment Development Technology import and absorption technological obsolescence etc.
6.	Ecological	Natural resources and reserves need for Environment protection of fragile zones pollution control etc.
7.	Geographical	The geo-peculiarities of a region like Environment the terrain vegetation cover location attitude rainfall climate etc.
8.	Cultural	Cultural life of people rites rituals Environment festivals heritage invasion of alien culture business culture roles etc.
9.	Social	Social practices social classification Environment like caste religion and community social institutions like family marriage etc.
10.	Demographic	Size of population composition of Environment population family size and cycle language educational attainments entrepreneurial talents etc.

A brief description of different environmental dimensions, seen above, is below:

Political Environment

Political dimensions consist of the political system (ie., democracy, autocracy, etc), the political institutions (the national and regional parties, their structure and their style of functioning, etc), the political ideologies of the parties (ie., commitment to socialism, capitalism, large industries, domestic industries vis-a-vis multinationals, etc), political stability (continuance of same party in power, continuance of same policies perused by the party in power previously by the new party in power, etc), strength of opposition and political culture of parties.

Political dimension is a basic reason for the delay in privatising insurance sector in India. Even in the liberalised environment Communist Parties do not accept permitting International enterprises to do business in India.

Needless to say, political dimension influences the legal and governmental environmental factors, which in turn affect businesses. It is the political ideologies of Smt. Indira Gandhi that resulted in vast role for public sector, bank nationalization, etc. Political stability and opposition unity affect business, environment. Investment policies of businesses, etc depend on political stability. With political stability foreign capital can be wooed. Politics-business nexus is always there throughout the world, through election funding, etc.

Governmental Environment

In theory, at least, there is difference between Government and ruling political party. Hence a separate discussion of Governmental environment is made.

The factor, include the system of government (parliament, presidential, etc), power distribution between Union Government and State Government, and the local bodies, the culture of the civil servant, (their ability, straightforwardness, speed of action, etc), Governmental institution, like the Parliament, Council of Ministers, Ministries, etc and their relative role and efficacy, the Governmental Policy on Business (laissez-faire policy or control), etc.

Stable governmental policies, efficiency of and timely action by the civil servants, greater understanding among different ministries, etc have a definite influence on export business. A responsive government is a boon to businesses and vice-versa.

Economic environment influences export business and investment opportunities. India and Mauritius have entered into Double Taxation Avoidance Agreement (DTAA). As per the agreement, a resident company of Mauritius investing in India will pay income tax and other taxes as per the taxation rules of the Mauritius. Many global enterprises invest in India though Mauritius because tax rate in Mauritius is less than the tax rate in India. Tax policy of Mauritius Government influences investment in India.

Importing countries may levy anti-dumping duties on a specific commodity, in the import of such commodity damages domestic industry

producing the same commodity. Anti-dumping duty is levied to reduce cheaper imports. Removing quantitative restrictions, reducing/increasing import duties etc., influence export business. The prosperity of the export business, is based on the Export-Import Policy of the Government. Export incentives and concessions provided by the Government influence export business. The European Union provides enormous incentives to the dairy industry. So their share in global dairy market is on increasing trend.

Unilateral, bilateral and multilateral agreements will influence export business. The GSP (Globalised System of Preferences) and GSTP (Global System of Trade Preferences) concessions influence export business. Under GSP importing countries give concessions in import duty for the products imported from the listed countries in GSP. It is unilateral agreement. Under this, duty concession is given by the developed countries to developing countries. Under GSTP countries entering into agreement should exchange duty concession, mutually. It is bilateral agreement.

Investment and exchange rate policies of the Government influence export opportunities of a business. Currency depreciation makes export, competitive and imports costly. South Korean companies are permitted to invest in automobile sector in India that will pave the way to increase automobile exports in India in the near future.

Legal Environment

The legal system (the Supreme Court, High Court, District and Taluk Courts, Ombudsman Organisations, Labour Court, and Tribunals, Consumer Court, and Tribunals), the legislative framework, (the different economic and commercial legislations, the provisions and interpretations), the speed of disposal of cases, the independence of the judicial system, etc in India and emerging market, constitute the legal environmental factors for export business.

Legal procedures relating to import of goods, packaging, export price regulations (minimum export price), anti-dumping and international advertising are discussed under legal environment of export business.

A clear-cut legislative framework reduces the scope for diverse interpretation, no needless dragging of cases. An efficient judiciary disposes of pending cases sooner than later. Too much of business legislation, instead of

creating ground for orderly relation, among businesses, curtails freedom of enterprise. Hence the influence of legal system on businesses.

Legal environment influences export business greatly. The WTP insists the member countries to adopt labour standard and environment standard. The United States put ban on the import of products made by child labour. The US insists to avoid child labour. We have to give provision in out Labour Law to avoid child labour in Indian industries whether small scale on large scale. Environmental aspects and Law, also are seriously considered in export business. The Government of India has stated that the industrial units of foreign countries getting permission to establish their industries in Special Economic Zones (SEZ) should follow Indian Labour Law. Foreign companies may hesitate to establish their units in SEZ. Because they prefer hire and fire labour policy and not the protected one like Indian Labour Policy. This may reduce exports of SEZs. Hence labour policy influences export business.

Legal procedures for payments in the importing countries, and dispute settlement mechanism in the importing countries also have a bearing on international business.

Economic Environments

The economic dimensional factors are indeed numerous and more influenced. The gross national product and its composition and trends the gross national savings and investments the size and scope of public sectors the economic policy of the lane consisting of control on big businesses, tax policy, policy in fiscal deficit, interest rate policy, policy on foreign finance for developments monetary policy, trade policy, reservation of industries for small businesses, incentives for selected industries/regions etc influence export businesses vastly.

The economic systems nature of the economy, composition of the economy, functioning of the economy, health of the economy, economic policy, strategy, programmes and procedures adopted, economic controls and regulations, economic trends, economic problems and prospects influence businesses in the international market.

Economic factors of a country will influence export business. The economic factors such as, standard of living of the people, progress in economic development, rate of foreign exchange, trade barriers, trade blocks, bilateral and

multilateral agreement, with multinational agencies and other developed and developing countries influence international business of a country.

In a capitalistic society private enterprises develop. In an industrial economy the economic health is better than in an agrarian economy. The structural pattern and interface among various sectors of the economy mean much for individual businesses. Structures rigidities are being reduced through liberalisation giving increases scope for innovative businesses in the global market.

Technological Environment

Technology is the invisible input in domestic and export business. Science and Technology make lot of differences in economic and social life. Industrial and agrarian development in the present era are technology driven. Technology is all pervasive. Small and big industries, agricultural and secondary sectors, service and infrastructural sectors, rural and urban sectors all need technology.

Availability of appropriate technology, technology development, technology absorption and technology upgradation influence export businesses very much. Import of technology and development of indegenous technology are the two eyes for industrial and business development. Businesses must manage technology, instead of being dictated by technology. That is technology should be used for human and business development together. Modernisation of businesses through planned obsolescence is one aspect of technology management. Development hinges on technology. Hence the relevance of technological environment. Technology forecasting is needed so that businesses can plan for future in a firm way. If in a country technology is not given due importance, its businesses will stand no ground in the competitive world.

Technology development in food processing industry will increase processes foods exports. Software technology contributes to increase in software exports in India. Technology will create alternative, for the scarced or limited resources. Technology is a weapon to fight in the global market and it is a stepping stone to maximise export business in the global market.

Ecological Environment

Businesses including international business are influenced by the natural resources available in the regions and balanced exploitation of the natural

resources. Lopsided or over exploitation of one or other resources, beyond the balancing or regeneration capacity of the nature, will spell doom for the businesses. Large dams vis-a-vis small dams, bio-fertilisers vis-a-vis chemical fertilizers, conventional energy vis-a-vis now-conventional energy and the like issues are nothing but intimately woven with the ecology. Unless fuel efficiency is ensured right from the village homes using firewood, to big industries using fossil fuels, the world would suffer serious ecological hazard with alround pollutions. Businesses, have to, therefore, be concerned with the ecology and natural environment. Now ecological audit is made part of project appraisal. Stern ecological laws are in vogue nowadays.

Geographical Environment

International businesses are affected by the kind of terrain, the soil and sue-soil characters of the area where these are functioning, the climatic factors, nearness, to seaports, the rainfall, the wind level, etc. In fact the type of business that can be developed in a place is influenced by the geographical environment. In a rocky region rose cannot be grown, but granite industry can be developed. In a hilly region rice cannot be grown but coffee of tea or other plantation crop can be.

Brazil is a leader in the world coffee market. India is a leader in the world tea market and spices market and cashes market. New Zealand is a market leader in the world dairy products market. Malaysia is a leader in world rubber and palmolein oil market. The Geographical environment in the concerned country make them to become leaders in the specific product in the world market. Hence geographical environment influences export business. Cold countries will import leather garments. It is the opportunity to the other countries, to export leather garments to the cold countries.

Cotton industry is concentrated in Bombay region, which is due to the hinterland soil-type and climate suited for cotton cultivation and spinning. Bombay is the business capital of India. This is again due to its geographical features. A natural set-ports good rainfalls the rich soil, etc make Bombay a unique land of businesses.

Cultural Environment

Warren J. Keegan, in his book 'Global Marketing Management' has expressed the concept culture as "the ways of living built up by a group of

human being, that are transmitted from one generation to another, culture include, both conscious and unconscious values, ideas, attitudes and symbol, that shape human behaviour and that are transmitted from one generation to the next". Cultural factors are important influences of the export marketing of goods and services. Religions family set-up, education and language are important cultural factors influencing export marketing.

Businesses are social sub-systems. Businesses exist to cater to people's needs. People's needs depend on their culture. Rites, rituals, values, beliefs, norms, symbols, festivals, leisure activities, work, preferred, etc are all cultural or culture-dependent. Culture changes, but basic characters remain the same as ever. Culture varies from region to region and society to society. Depending on the cultural heritage of the people, people's economic, social, educational, work and leisure needs differ. Businesses try to meet these needs of different people. As culture changes, the businesses have to change themselves. Now-a-days cultural change is taking place on a large scale due to exposure to alien cultures through media or movement. This has enormous business implications in the export market.

"Ready to use" products are popular in the world market. Exporters should supply ready to use food products to maximise their export business. In some countries consumer may prefer neatly packed products in male quantities, rather than in bulk form. Exporters have to observe colour preference of the buyers in textiles and other products in the world market and important festival, in the emerging markets to capitalist the cultural environment and to maximising export business. Changes are witnesses in Indian cultural environment. Industrial and consumer products of western world are marketer in India and this market goes on increasing trend.

Social Environment

Social environment refers to the social classification of peoples upper, middle and lower classes or economic basis, caste based classification and community based classification, social institutions like family, marriage, societal value, like honesty and cleanliness in public life, various tolerances, etc.

Again, as businesses serve and get served be the society, social environment affects businesses. In family life the purchase decisions are generally made be the elders who consider value for money as the most

important criterion of buying decision. Businesses have to keen this in mind. At the same time, as social changes are common, youngster, have been now taking purchase and investment decisions. Now businesses' articulation, have to be different.

The middle class is the burgeoning one in most countries. Two bed room houses/flats, TVs, VCRs, Washing Machines, Electronic Typewriters, etc are the status symbol of this social group. Indian and multinational companies mostly cater to this social group.

Demographic Environment

The size of population, age, education, linguistic and religious composition of population, trend in these factors, entrepreneurial aspiration of the people, educational and skill levels of population, political ideologies and awareness of the people, values and attitude of the people, etc constitute the demographic environment.

Growing population has both positive and negative impacts on the nation and its businesses. Baby boom in a land would mean more hay days for baby food and health businesses. Similarly, burgeoning old age people in a land will lead to more hay days for health-care industry, home for the elders like creche for children and so on. If people are entrepreneurial more innovative businesses will come up. Job providers will increase and unemployment will decrease of vanish. Small family norms are nowadays stressed. In China 'one family-one-child" norm is enforced. This, it is reported, leads to much more "pampered childhood". It may have social repercussion, later. Business opportunities and challenges, in domestic and international market, area thus influenced by the demographic factors and the trend in them.

Largest educated population, largest uneducated (illiteracy) population, and largest middle income group population in the world are in India. It attracts multinational companies to enter into Indian consumer goods market. The Hindustan Lever, Nestle, Smithklime Beecham etc., have exploited consumer goods market in India. Hence demographic environment influences international business. Computer literacy is on increasing in India. It increases number of computer training institutes and India becomes leader in the world software market. Growth of computer literacy creates opportunities to Indian Information Technology companies to penetrate in the world market.

QUESTIONS

1. What is international marketing? Explain its nature and scope.
2. What do you understand by international marketing environment?
3. Explain the factor, influencing international marketing environment.
4. Explain international dimensions of marketing.
5. What do you understand be ethnocentric and polycentric approach in international marketing.

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CHAPTER–II

CONSUMER BEHAVIOR

Objective of this lesson is to help learners to understand

i) consumer behaviour in the international context,

ii) factors influencing consumer behaviour and

iii) steps involved in consumer decision making process.

INTRODUCTION

Philip Kotler has defined consumer buying behavior as, "the buying behavior of final consumers- individuals and households who buy goods and services for personal consumption". Buying behavior of consumers is not uniform in the international market. Consumer behavior in the domestic as well as international market is influenced by factors such as cultural, social, personal and psychological factors.

Cultural factors includes culture, subculture, and social class. Culture designs behavior of consumers and it is reflected in the market also. Culture will differ region to region in the international market. Culture is defined as "set of values, perceptions, wants, and behavior a consumer learn from the society. Culture is centred in the consumer behavior. Subculture determined market segments. Subcultures include religions, social groups, geographic regions and nationalities. Region wise culture in the international market is known as subculture. It is a group of people having common vehicles and experiences. Social class is another dimension of culture. Social class is determined by various factors such as, occupation, income, and education. Consumer behavior will differ from one social class to another class. Social class of consumers is also considered by marketers while designing their marketing mix.

Social factors determining consumer behavior deals with small group of consumers, family and social roles and status. Consumer behavior is influenced by groups. (reference groups, opinion leaders). Behavior of individual consumer will differ when he joins in a group. Philip Kotler has rightly pointed out that "reference groups expose a person to new behaviors and to styles, influence and person's attitude and self-concept, and create pressures to conform that may affect tne person's product and brand choices". Opinion leaders influence buying

behavior of consumers. Opinion leaders are members of the reference groups who are expertised in a specific product area and their opinion will influence buying behavior of other members of the reference group. Family members influence buying behavior. Husband, wife and children play a vital role in buying decision. Marketers attempt to assess the role played by various members of the family in buying decisions for the purpose of designing product promotion programmers and new products in the market. Roles played by consumers in various social groups influence their behavior. The role played by consumers will give status to him. If a consumer becomes a president or secretary of a social organization or a voluntary service organization, his role and status will differ that of role and status he had earlier. New role and status of consumers will influence their buying behavior. Role and status of consumers determine type of products to buy. Marketers observe role and status of consumers in family, social and voluntary organizations and work place in order to fulfil their desired needs.

Personal factors that influence consumer behavior include age and life-cycle of consumers, occupation, economic situation, life style, personality and self-concept. Consumers preference to buy depends upon their personal factors. Even marketing segment is also determined by personal factors of consumers. Buying behavior of teenagers will differ that of middle aged and older people. Research studies show that there is a significant relationship between personal factors and consumer behavior. Personal factors and consumer behavior are dependent variables. Buying behavior will differ between white collar workers and blue collar workers, and higher level management workers to lower level management workers. Life styles of consumers, personality and self concept determine consumer behavior in domestic as well as international market.

Psychological factors determining consumer behavior include motivation, perception, learning and beliefs and attitudes. Buying behavior is influenced by needs of consumers, the process of which consumer interpret the product and market, experimental buying, belief of consumers about the product, evaluation, and feelings of consumers about the product. The above psychological factors of consumers will differ from one market to another market in the global market. Marketers should observe psychological factors affecting consumer behavior region to region in the international market for the purpose of selecting suitable product strategies (Standardisation or adoption) in the world market.

TYPES OF CONSUMER BUYING DECISION BEHAVIOR

Buying decision behavior of consumer is classified into four types. They are, (i) Complex buying behavior, (ii) Dissonance- reducing buying behavior, (iii) Habitual buying behavior, and (iv) Variety seeking buyer behavior. These four classifications can be considered as consumer behavior models.

Complex buying behavior reveals very high involvement in product purchase and observing significant differences between brands and product attributes. Consumer involvement in purchase will be very high when the product is expensive, risky and purchased infrequently. Marketers should provide all relevant information about their products, to the customers. High involvement customers try to gather information about the product as much as they can.

Dissonance-Reducing Buying Behavior reveals very high involvement in product purchase and observing a few perceived differences among brands. Consumers of dissonance-reducing buying behavior will show very high involvement in product purchase and in the market but observe a very few differences among brands.

Philip Kotler has expressed that, "Dissonance-Reducing Buying Behavior occurs when consumers are highly involved with an expensive, infrequent or risky purchase, but see little difference among brands".

Habitual Buying Behavior is characterized by low involvement of consumers in the stages of purchasing and decision making and observing a few perceived differences among brands. In that behavior stage, consumers do not put much interest in searching information about the product and brands available in the market. They do not evaluate extensively about alternative brands available in the market. They may buy products based on the details they get from their friends. Advertisement may be the source to them to get information about the product. Consumers receive product information passively from the available sources.

Variety-Seeking Buying Behavior is characterized by low involvement of consumers in the various stages of purchasing decisions but observing significant perceived differences among brands available in the market.

Domestic as well as international marketers should observe the level of involvement of consumers in the various stages of purchasing decisions of

various types of products and their process to evaluate brands and observe perceived differences among various brands. Studying consumers' involvement in the buying decision process will help marketers to design their marketing mix that paves the way for market development, market penetration, new product development and increasing market share in the days to come.

BUYING BEHAVIOR: THEORIES AND MODELS

Buying behavior depends upon the following theories and models:

i) The economic model

ii) The Learning model

iii) The psychoanalytical model

iv) The sociological model

v) The Nicosia model

vi) The Howard–Sheth model

THE ECONOMIC MODEL

Buyer is a rational man and his buying decisions and behavior are based on the concept of utility. V.S.Ramasamy and S.Namakumari have explained that, "if a buyer has a certain amount of purchasing power, a set of needs to be met and a set of products to choose from, he will allocate the amount over the set of products in a very rational manner with the intension of maximizing the utility of benefits.

THE LEARNING MODEL

This model reveals that buyer behavior is based on over changing drives, stimulate and response of the buyer. Buyer behavior is based on pavlovian stimulus – response theory. Buyer's response over the product promotion will influence buying decisions.

THE PSYCHOANALYTICAL MODEL

Buyers have a certain complex set of motives and wants that may influence their buying decisions. This model highlights desires, motives and wants to the buyers that persuade them to buy. It shows that psychological attitudes determine buying decisions.

THE SOCIOLOGICAL MODEL

This model reveals that buying decision is influenced by social environment and social compulsions. Buying behavior of consumers is depend upon the behavior of intimate groups and social class.

THE NICOSIA MODEL

It is called as systems model. In this model human being (consumer) is considered as a system and stimuli-response analysis is done to study buying behavior. Francesco Nicosia, an export in consumer behavior and motivation, developed this model in 1966. This model attempts to assess the relationship between company and its consumers. It is assumed that product promotion measures of a company influence buyers' decision making process. They develop certain attitudes towards the product. It may pave the way to a search for the identified product or an evaluation of the product. If buyers are satisfied in the education stage, they may go for buying stimuli from the marketers and response from the buyers will influence buying decisions. Attributes of company, attributes of buyers, buyer motivation, actual purchase and post purchase behavior of buyers are analysed in this model. Because they influence buying decisions.

THE HOWARD-SHETH MODEL

John Howard and Jagdish Sheth developed this model in 1969. This model also undertook stimuli – response analysis to determine buying behavior like Nicosia model. V.S.Ramasamy and S.Namakumari explain the logic of the model as, "there are inputs in the form of stimuli. These are outputs beginning with attention to a given stimulus and ending with purchase. In between the inputs and outputs there are variables affecting perception and learning. These variables are termed 'hypothetical' since they cannot be directly measured at the time of occurrence".

PURCHASING DECISIONS

There are five stages in the purchasing decision process. They are,

1. Need Recognition
2. Information Research
3. Evaluation of Alternatives
4. Purchase Decision, and
5. Post-purchase Behavior

Need Recognition

It is the first stage in purchasing decision process. In this stage consumers identify and recognize a specific need or problem. Consumers attempt to identify difference between their actual state and the expected desired state. They may expect more comfort than the present one. They may expect more consumer value of the product than the present one. Consumers may ascertain or recognize their need internally and externally. Product features, product display and product promotion may persuade consumers to buy. Hunger, thirst and health related problems may create need to certain products. Changes in cultural and economic environment and standard of living may create need to the consumers certain products. Employed couple recognize the need to buy all consumer durables and white goods suitable to their day to day life.

Information Search

Once the consumers realize the need to buy a specific product, they start to search information about the product, what is the product? What are its uses? Where the product is available? What are the terms and conditions of sales? and the like. There are few sources to gather information about the proposed product to buy. They are, (i) personal sources, (ii) commercial sources. Personal sources consist of family, friends, and neighbors. Commercial sources consist of advertising, salespeople, dealers, packaging and product display. Public sources consist of dailies, magazines, mass media and consumer research and market research organizations. Experiential sources consist of consumers' experience in handling and using the product. Sources used for information research will vary product to product. Of late, commercial and public sources play a vital role in providing needed information to the consumers about the products they desire to buy. Philip Kotler has expressed that commercial sources normally inform the buyer, but personal sources legitimize or evaluate products for the buyer. Keith B. Murray has stated that personal sources appear to the even more important in influencing the purchase of services. Consumers' awareness and knowledge about the products depend upon the extent of information search and availability of product information. If a consumer wants to buy a car, he will search available brands in international market through various sources. He will try to ascertain car loan facilities through various sources. Companies should design their marketing mix in such a way to create awareness about the product to consumers. Importance of various sources of information should be carefully

assessed on consumers' point of view and companies should pay attention to such sources accordingly.

Evaluation of Alternatives

In general, consumers evaluate alternative products available in the market for fulfilling their desired need. They identify the best product most suitable to them. The information search process and the available information about the product will help consumers for evaluation of alternatives. Consumers apply cost-benefit analysis while evaluating the alternatives. There are a large number of brands available in the market for colour televisions, washing machines, refrigerators, two wheeler, car and the like. Similarly a large number of brands are available worldwide for industrial products. Consumers have a large number of choices to choose the product they desire. Here, evaluation of choices i.e., alternative products, becomes an important task to the consumers to be considered in his purchasing decision.

Philip Kotler has stated that "alternative evaluation is the stage of the buyer decision process in which the consumer uses information to evaluate alternative brands in the choice set".

Consumers carefully consider the following factors in their process of evaluation of alternatives.

i) product attributes,
ii) degree of importance,
iii) brand beliefs (brand image),
iv) total product satisfaction, and
v) evaluation procedure

Product is defined as, "a bundle of product attributes". For refrigerator product attributes are, colour, capacity, price, technology involved, ease of use, after sales service, space design inside, and other features. Consumers are not uniform in preferring product attributes. Preference of product attribute will vary consumer to consumer. Consumers will prefer certain specific attributes of the products most suited to them. Hence product attributes become essential factor in evaluation of alternatives.

Consumers assign different degrees of importance to the different attributes of the product according to their desired needs and requirements.

Degree of importance to attributes of a product will vary consumer to consumer. Degree of importance to product attributes is another factor considered by consumers in evaluation of alternatives.

Brand beliefs (image) is also given due importance in evaluation of alternatives. Some consumers will prefer certain brands only. Brand preference and the extent of brand switching play a vital role in marketability of consumer and industrial products.

Total product satisfaction depends upon the strength of the various product attributes. In a product, one attribute may be strong; another attribute may be not so strong. Quality may be good; but design may be poor, and after sales service may be unsatisfactory. Price may be low; brand may not be popular. Here, total product satisfaction will come down and preference to buy will be at low level. Total product satisfaction is taken into account in evaluation of alternatives.

Consumers consider opinions of their friends, and sales people while planning their purchase. Impulse buying is also possible without evaluation of alternatives. Logical thinking about the requirements and careful evaluation of alternatives pave the way to purchase the desired product.

It becomes a primary responsibility to the marketers to assess the important factors considered by the consumers while evaluating the alternatives. If the product evaluation factors are assessed by the marketers in advance, product can be designed to fulfil the expected product attributes of the consumers and marketability and market penetration becomes easy. The Hindustan Lever Limited undertook a preliminary survey to assess the consumer preferred attributes to the detergent powder 'Surf'. Similarly a survey is undertaken for "Whirlpool Washing Machine' by the producer.

Purchase Decision

After evaluating various alternative products available in the market, consumers rank the products based on the total satisfaction index of the product for their purchase decision. Philip Kotler has stated that "purchase decision is the stage of the buyer decision process in which the consumer actually buys the product". Generally, the most preferred brand will influence purchase decision. There are two factors in between intention to purchase and actual purchase. Philip Kotler has expressed that two factors can come between the purchase

intention and the purchase decision. The two factors are, (i) attitudes of others, and (ii) unexpected situational factors. Relatives, friends and parents may change intention of the consumers to buy a specific brand and consumers may buy brand influenced by others. Wife intends to buy costly audio system. But husband strongly feels that she should buy lowest price audio system. Here, the chance of buying costly audio system will be reduced. Wife's actual purchase will differ that of intention to purchase. Similarly the unexpected situational factors may change the already designed purchase decision. Purchase intention of buyers depends upon unexpected income, price and product attributes and benefits. Some unexpected events happening in the market at the time of executing the purchase decision may change the consumers' intention to buy a specified brand. Consumer may meet his friend in the market. He may express dissatisfaction of the brand that is intended to buy by the consumers. This may change purchase intention. Unexpected expenditure in the family may reduce the chance of buying costly brand that is intended to buy. Competing brands may reduce their prices drastically. It may change consumers' intention to buy their preferred brand. Philip Kotler has rightly pointed out that "preferences and even purchase intentions do not always result in actual purchase choice".

Post Purchase Behavior

Marketers should assess post purchase behavior of customers, whether they are fully satisfied with the performance of the product or not. If consumers are not fully satisfied with the performance of the product, repeat buying is not possible. Sales may be affected. Post purchase behavior of the consumers plays a vital role in increasing marketability and market share of various products. Marketers should ascertain factors influencing satisfaction and factors influencing dissatisfaction to consumers towards the product. The extent of satisfaction and dissatisfaction of consumers lies between perceived performance of the product and consumers' expected performance. If perceived performance is poorer than the unexpected performance consumers are dissatisfied or disappointed. Consumers will be delighted if the perceived performance of a product is more than expected. Philip Kotler has stated that "post purchase behavior is the stage of the buyer decision process in which consumers take further action after purchase based on their satisfaction or dissatisfaction". Marketers should not exaggerate the performance of the product. If so, post purchase behavior of consumers will reveal high level of dissatisfaction of the product. In international market some companies will understate the

performance of the product. In this situation, the perceived performance of the product will be more than the expected performance and consumers will be satisfied and delighted. This is one of the strategies for market development in the international market. After the purchase in general, consumers should be satisfied with the benefits of the chosen brand and happy in avoiding drawbacks of the brand not purchased. See Leon Festinger, in his book 'A Theory of Cognitive Dissonance' has expressed that "consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus consumers feel at least some post purchase dissonance for every purchase" (It is quoted by Philip Kotler in his book (Principles of Marketing). Consumer satisfaction is the basic objective of any marketing programme. If this objective is achieved, companies can retain the existing customers for a very long period of time and new customers can be created with minimum effort and cost. Satisfied consumers will help marketers to expand their market. They will talk about the product with their friends and prospective customers favourably. This will create new customers. Marketers should try to delight the customers than satisfy them. The extent of market shortfall or damage created by dissatisfied consumers is more than the extent of market opportunities created by satisfied consumers. So marketers should design their marketing programme in such a way to maximize satisfaction to the consumers. It is given priority in all functions of marketing.

BUYER BEHAVIOR FOR NEW PRODUCTS

Marketers will introduce new products to compete in the international market and attract the attention of the customers. Once a new product is introduced, majority of the consumers will not come forward immediately to buy new product. They will wait for some time. They will observe movement of new products in the market. Philip Kotler has defined new product as, "a good service, or idea that is perceived by some potential customers as new". Consumers pass through five stages in the process of adopting a new product. The five stages are, (i) awareness, (ii) interest, (iii) evaluation, (iv) trial, and (v) adoption (buy and use of product regularly). Passing through the five stages is known as product adoption process. Everett M.Rogers in his book, 'Diffusion of Innovation', has defined adoption process as, "the mental process through which an individual passes from first learning about an innovation to final adoption" and adoption as the decision by an individual to become a regular user of the product".

Stages of product adoption are explained below:

(i) Awareness --- Consumers come to know the new product available in the market and they become aware of the new product. They do not know the entire features of the product.

(ii) Interest --- Once consumers come to know the availability of new product, naturally – they are interested to know about the product. They try to get relevant information about the product from various services. It shows their interest towards the product.

(iii) Evaluation --- After getting required information about the new product from various sources (personal, commercial, public) consumers will evaluate attributes of the product to assess whether buying the product is worthy to them. If they consider buying is worthy, they will go on next stage trial.

(iv) Trial --- After evaluating the attributes of the product, consumers go for trial purchase to experience performance of the product.

(v) Adoption --- In the trial stage, if the perceived performance of the product is at par or above the expected performance, consumers will become regular buyers of the products and they will become loyal consumers in future.

Consumers should pass all the above five stages to become buyers and regular buyers of the product. Some consumers may be interested to buy. But they do not know relevant information about product features. Some consumers after getting information about product features, they may not go for trial purchase due to non-availability of money. After trial purchase, some consumers may not become regular buyers. Because they seek some improvement in product features. Marketers should observe the problem faced by consumers in the various stages of product adoption and show helping hands to them to solve their problems.

All consumers will not buy new products at once they are introduced in the market. Consumers are classified into innovators, early adopters, early majority, late majority and laggards based on the speed and tendency towards adopting new products.

Product characteristics decide the speed of product adoption. Some products will be adopted (use and buy) by consumers during a short span of time, and some products after a long period of time. The following are product characteristics decide the speed of product adoption.

i) relative advantage,

ii) compatibility,

iii) complexity,

iv) divisibility, and

v) communicability

Consumers try to realize the relative advantage of new product, comparing the existing one. Consumers will buy new product when the relative advantage of such product is more than the existing product. Increase in quality, competitive price, and involvement of recent technology may be relative advantage of new products.

A new product introduced by the marketers should be compatible to the values, lifestyles and experiences of prospective buyers. If a new product is not compatible to the consumers, rate of adoption of that new product will be very low.

Any new product, or innovativeness in the existing product should be easy to handle, use and repair and overhaul. If the new product is complex in nature, the rate of adoption will be very low. Consumers do not prefer products that are so difficult to use and complex in nature.

Divisibility is another characteristic of a new product that influences consumers to buy.

Communicability of a product will increase the rate of adoption. Consumers should feel comfortable in explaining or communicating innovativeness and characteristics of the new products to others. Once communicating the uses of the product becomes difficult to others the rate of adoption will be very low.

Consumers prefer the product features such as compatibility, complexity, divisibility, and communicability when they prefer to buy a new product.

HOW CONSUMERS BUY

Terms and conditions of sales decide buying pattern or style. Pattern of sales such as cash sales, and credit sales decides consumers' willingness to buy. Sometimes the pattern of sales may postpone the purchase of consumers. Earlier credit card was not accepted in all hotels, restaurants, and textile shops. Of late, credit cards are accepted even by retailers. Consumers availed credit facilities under hire purchase system to buy goods today anticipating future income to repay loan. But now consumers use credit facilities even for their convenience. Many finance companies are ready to provide credit facilities to consumers to buy consumer goods. Consumer loan is popularized nowadays.

Credit card facility provided by banks is an attractive option to consumers helps to make them to make a wide variety of purchase while not carrying cash. Availability of credit cards increases buying habits of consumers. Credit card changes the buying behavior of consumers. The extent of effectiveness of product promotion activities make consumers to buy and influence behavior of the consumers. Product promotion activities pull consumers to buy products. Consumers consider innovativeness, availability of the product, competitive pricing, availability of the product, and after sales service when they attempt to buy any product in the market.

Reason for the purchase and ability to buy are other important factors deciding product choice or brand choice of consumers. Product choice or brand choice for the purchase for own use will differ from the purchase for gift to others. Consumers prefer fancy and stylish watches for gift and normal design for daily use. Marketers should observe reasons for buying in order to determine an effective marketing mix.

Ability to buy, state of mind, availability of time for shopping, shopping with family, business of buyers, fear, excitement, illness and happiness of consumers will change buying behavior at the moment.

The physical and social surroundings change behavior of buyers. William J.Stanton has expressed that, 'physical surroundings are the features of a situation that are apparent to the senses, such as lighting, smells, weather, and sounds. Social surrounds are the number, mix and actions of other people at the purchase site'. Generally buyers do not prefer to enter into a shop where only a very few buyers are buying goods. Some buyers will prefer shops where a huge crowd is searching their requirements. In a crowded shop, a lot of customers will

be waiting, in this situation, buyers will spend less time for shopping. The social surroundings influence buyers behavior. People do not prefer to eat in a hotel, where there is no customers or that is empty, or only a very few customers taking their dinner.

Consumer behavior is influenced by situational forces. It is known as temporary forces in the market that may affect behavior of buyers. William J.Stanton has rightly pointed out that "situational forces determine when, where, how, and why consumers buy as well as the conditions under which they buy". Marketers should learn how behavior of consumers is influenced by the reason, week, day or hour, impact of past and present marketing environment on the behavior of consumers, and time taken by consumers to make their purchase and consume the product. Product promotion should reach consumers when they prepare themselves to buy. Timing or scheduling of product promotion activities becomes essential to increase their effectiveness. Product promotion activities must be made available to buyers when they are prepared to buy. In the festival seasons, consumers are ready to buy textile goods. A lot of promotion activities are made available to consumers about textiles. Product promotional activities are made available for seasoned goods in the specific seasons. Woolen dresses are made available in winter and cotton dresses during summer. Period of interval between two purchase or shopping influences behavior of buyers. If a shop is visited by a consumer a very long back, that shop will be the first in the order of preference to visit next time. Some consumers do not find enough time for shopping. Marketers should help them to fulfil their shopping requirements. Customers may give negative film for photo printing. They do not find time to get printed photos from the photo studio. In this situation, photo studio should take steps to send the photos to the customers by post. Of late, consumers do not find time for relaxed shopping. So marketers should strengthen their product promotion and sales promotion activities so as to reach the product in time to the consumers.

QUESTIONS

1) What is consumer behavior?
2) What are the factors influencing consumer behavior? Explain them.
3) Discuss the steps involved in consumer decision making process.

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CHAPTER–III

MARKETING MIX

The objective of this lesson is to make the students to learn

i) new product development and planning

ii) market segmentation

iii) product positioning

iv) the concept of product life cycle

v) product standardization vs. adaptation, and

vi) branding and packaging.

INTRODUCTION

Philip Kotler defines marketing mix as, the set of controllable technical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities can be collected into four groups of variables known as the "our Ps" Product, price, place and promotion".

Product: It is a set of tangible and intangible attributes, including packaging, colour, price, quantity and brand, plus the seller's services and 0 reputation. A product may be a good, service, place, person or idea. (William J.Stanton).

Product refers the goods and service combination the company offers to the target market. Hindustan Lever Limited offers soaps, detergents, toothpaste, beauty cream etc. They are products of their company. Warren J. Keegan defines product as "a collection of physical, service and symbolic attributes which yields satisfaction, or benefits, to a user or buyer". Product management deals with the decision influence perception of the customers towards the products offered by a company. Products are classified into consumer products and industrial products. Consumer products are classified into convenience goods, shopping goods and speciality goods.

Price refers the amount of money customers have to pay to buy the product. Price is the amount of money and/or other items with utility needed to acquire a product.

Place denotes steps taken (distribution strategies) by a company that make the products readily available to consumers in the target market. It deals with functions of channel of distribution and physical distribution.

The American Marketing Association defines channels of distribution as, "an organized network of agencies and institutions which is combination, perform all the activities required to link produces with users to accomplish the marketing task". Stanton stated that distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producers to ultimate consumer or business user".

Promotion refers steps taken (sales promotional measures, advertisement, personal selling etc) by a company to communicate the merits and chose strength of products to consumers in the target market and persuade and motivate them to buy the products.

Promotion is defined as "an element in the marketing mix of company that serves inform, persuade, and remind the market of a product and/or the company selling it, in hopes of influencing the consumers' feelings, behavior and beliefs".

Marketing mix should be designed in such a way to achieve its objects in its target market. Marketing management functions such as, marketing analysis, marketing planning, marketing implementation and marketing control will pave the way to achieve the objectives of marketing mix.

Marketing analysis refers analysis of strengths and weaknesses of the company with target market and it guides the company to identify market potentials and opportunities. Marketing analysis gathers unnecessary data relating to marketing information of the goods' and services offered by the company for designing the marketing mix appropriately. Market analysis will analyse the preventing marketing environment for the company.

Marketing planning refers designing marketing strategies that assist the company to achieve its overall strategic objectives. Product strategy, pricing strategy, promotion strategy and distribution strategy are marketing strategies. Achieving core competence and competitive advantage are also a part of marketing planning.

Marketing implementation refers the process of converting the market. Industrial products are classified into raw materials, fabricating parts and

materials, installations, accessory equipments and operating supplies elements of marketing mix should be co-ordinated with customers and their requirements. This co-ordination Industrial products are classified into raw materials, fabricating parts and materials, installations, accessory equipments and operating supplies elements of marketing mix should be co-ordinated with customers and their requirements. This co-ordination shortfall in marketing plans, strategies and policies. Marketing audit is also a control mechanism of marketing plans.

Marketing Mix – Target Customers

Product	Price	Promotion	Place
1. Product variety	List price	Advertising	Channels
2. Quality	Discount	Personal Selling	Coverage
3. Design	Allowances	Sales Promotion	Locations
4. Features	Credit terms	Public relations	Inventory
5. Brand Name	Payment period		Assortment
6. Packaging			Transportation
7. Size			Logistics
8. Services			
9. Warranties			

Robert Lauterborn has compared the 4 Ps of marketing mix (product, price, promotion and place) with 4 Cs of customers for strengthening market mix to provide greater value to the customers. (It is quoted by Philip Kotler in his book, Principles of Marketing).

4Ps OF MARKETING AND 4Cs OF CUSTOMERS

4Ps	4Cs
Product	Customer Needs and Wants
Price	Cost to the Customer
Place	Convenience
Promotion	Communication

Marketing programme should attempt to relate the marketing mix with customers. Marketing mix must be customers centred and customers oriented. Products should fulfil customers needs and wants, then only objectives of marketing can be achieved. Promotional programme should be communicated to customers effectively. Convenience of customers should be given due importance while planning for products distribution. "Products should be at reach of the customers. If so customers will be at reach of the companies". Price should be competitive comparing the customer value generated by products.

Industrial products are classified into raw materials, fabricating parts and materials, installations, accessory equipments and operating supplies elements of marketing mix should be co-ordinated with customers and their requirements. This co-ordination will increase customer value and competitive advantage to the company.

Warren J.Keegan has stated that "the essence of marketing is creating customer value that is greater than the value created by competitors. Value for the customer can be increased by expanding or improving product and or service benefits, by reducing the price, or by a combination of these elements. Companies that use price as a competing weapon must have a strategic cost advantage in order to create a sustainable competitive advantage. This might come from cheap labour or access to cheap raw materials, or it might come from manufacturing scale or efficiency or more efficient management. Knowledge of customers combined with innovation and creativity can lead to product improvements and service that matter to customers. If the benefits are strong enough and valued enough by customers, a company does not need to be the low-price competitor in order to win customers.

$V = B/P$

V = Value

B = Perceived benefits

P = Price

Marketing programme or system should create competitive advantage to the products of the company through marketing mix. Offer (product, price, advertisement, after sale service etc) made by a company should be more attractive than the competitors. This will create competitive advantage to the company in the target market. There is no difference in quality of the two products offered in the market. But there is price difference. Here low price

serves as a competitive advantage. Similarly, if price of the two products are the same, but quality differs, here high quality serves as a competitive advantage. Companies should focus their attention to the factors making competitive advantage to their producers. Low cost is the competitive advantage to Chinese products. Technology, competitive advantage to Japanese products.

William J.Stanton, defines marketing mix as, "the combination of a product, how it is distributed and promoted, and its price. These four elements together must satisfy the needs of the organisation's target market and, at the same time, achieve its marketing objectives". Marketing mix is a mix of product, price, place and promotion of a company. Marketing mix attempts to increase customer value. The four elements of marketing mix, product, price, place and promotion are equally important in marketing of goods and services in the target market. They are four pillars of marketing programme of a company.

The four elements of marketing mix are effectively coordinated to maximise market and market share and increase customer value in the target market. Further industrial products are classified into raw materials, fabricating parts and materials, installations, accessory equipments and operating supplies. Elements of marketing mix should be co-ordinated with customers and their requirements. This co-ordination will increase customer value and competitive advantage to the company.

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Marketing planning refers designing marketing strategies that assist the company to achieve its overall strategic objectives. Product strategy, pricing strategy, promotion strategy and distribution strategy are marketing strategies. Achieving core competence and competitive advantage are also a part of marketing planning.

Marketing implementation refers the process of converting the marketing strategies and plans into market oriented actions for achieving marketing objectives.

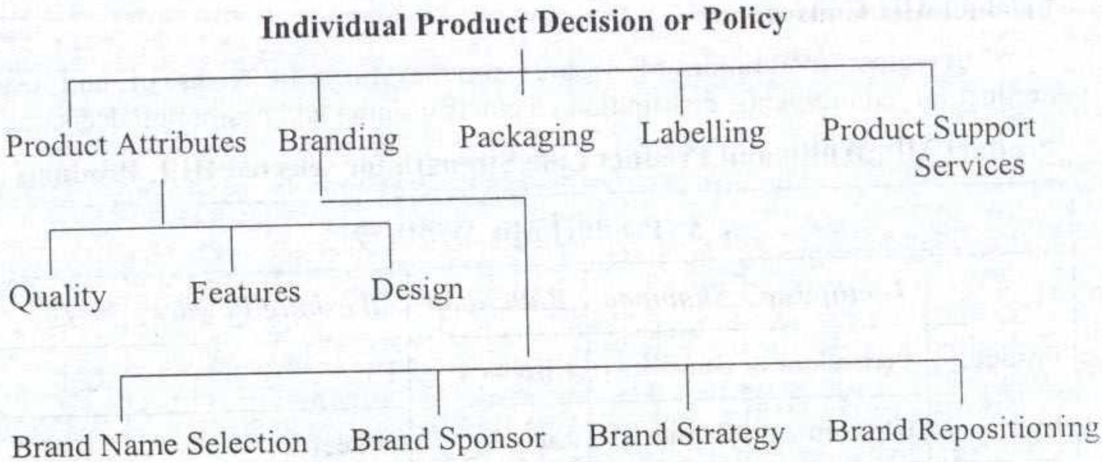
Marketing control deals with establishing standard (goals), measuring actual performance, evaluating the performance and taking corrective action. It evaluates the performance and taking corrective action. It evaluates the outcome of marketing strategies and plans and takes corrective measures for achieving the stipulated objectives. Any shortfall between expected and actual performance of marketing plans is carefully evaluated and steps are taken to find solutions for shortfall in marketing plans, strategies and policies. Marketing audit is also a control mechanism of marketing plans.

PRODUCT MIX

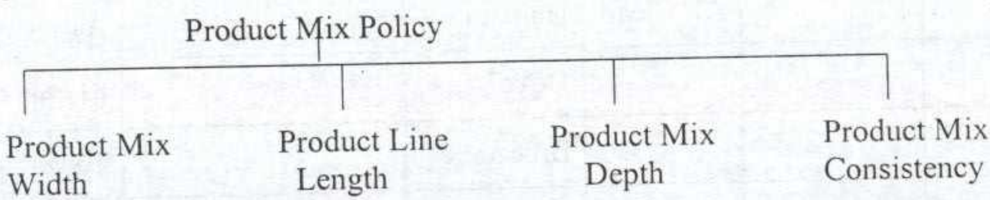
Philip Kotler defines product as, "anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. It includes physical objects, service, persons, places, organizations and ideas".

Products are classified into two categories. They are consumer products and industrial products. Consumers products are those products purchased by the end users for their personal consumption. Consumer products are classified into convenience products, shopping products, speciality products and unsought products. Industrial products are those products purchased for further processing and manufacturing or for use in doing a business. Industrial products are grouped into three broad categories. They are, materials and parts, capital items and supplies and services.

Individual product decision or policy deals with product attributes, branding, packaging, labeling and product support services.



Product mix is defined as the number of products offered by company for sale. Philip Kotler has defined product mix as, "the set of all product lines and items that a particular seller offers for sale. There are four dimensions for product mix. They are width, length, depth and consistency.



Product Mix Width

It refers number of different product lines introduced by the company one to another. Adding more and more products that are different for sale increases width of the product mix.

Product Line Strength

It refers total number of products a company offers for sales in a market.

Product Mix Depth

It refers variety and type of products offered in a single product. Tooth paste is given in a single colour, multiple colour and gel form. It is product mix (or) depth.

Product Mix Consistency

It refers integration of various product lines in terms of end use, production requirements, distribution channels, pricing and promotion decisions.

Product Mix Width and Product Line Strength for selected HLL Products

← Product Mix Width →					
	Toothpaste	***Shampoo***	***Bath Soap***	***Washing Powder***	***Tea***
Product	Pepsodent	Sunsilk	Lifebuoy	Rin	Red
Line	Closeup	Clinic	Lux	Wheel	Label
Length	Aim	Special	Liril	Surf	Broke
		Clinic	Rexona	Surf Excel	Bond
		All Clear	Hamam		A1
			Dove		Lipton
			Breeze		Toaza
			Pears		Three
					Roses
					Taj
					Mahal

MATCHING PRODUCT AND MARKET CHARACTERISTICS

It becomes essential to match the product with market characteristics and environment in the international marketing. Exporters should decide in advance about what products to export and in which countries. They should observe market characteristics that seek the extent of product standardization and adaptation. Company's image is increased worldwide through the process of product standardization. Lowering production costs and eliminating duplication

of research and development, advertising and product design activities are important advantages of product standardization. Culture, attitude and buying behavior of consumers, competition and economic conditions are not uniform in the world market. They will vary one region to another region in the world market. It seeks product adaptation. Exporters should introduce their exportable commodities employing with the changing market characteristics in the international market. Packing and labeling regulations also will vary country to country. Product policy involves complex decisions relating to product mix, product line, branding, packaging and after sales servicing requirements, changing international market characteristics should be carefully assessed and should be given greater importance while formulating product policy for international marketing.

PRODUCT STRATEGIES

International marketers can follow either standardized marketing mix or adapted marketing mix suitable to the market characteristics. Philip Kotler has defined standardized marketing mix as, "an international marketing strategy for using basically the same product, advertising, distribution channels, and other elements of the marketing mix in all the company's international markets". He has defined adapted marketing mix as, "an international marketing strategy for adjusting the marketing mix elements to each international target market, bearing more costs but hoping for a larger market share and return". Warren J.Keegan has expressed that (i) there are significant cost savings in standardized global marketing plan". Cost savings can be achieved not only in production but also in packaging, distribution and advertisement, and (ii) in the emerging borderless market, a standardized product is the same product in the all regions of the world market and is therefore uniform for increasing numbers of customers who travel across national boundaries". Warren J.Keegan has given five product strategies to match product with market characteristics. They are,

i) Product – Communication extension,

ii) Product extension – Communication adaptation,

iii) Product adaptation – Communication extension,

iv) Product – Communication adaptation, and

v) Product intervention

Product – Communication Extension

It is called dual extension. It is strategy to utilise market opportunities in the foreign market. Product sold in home country and communication (promotion tools) used to sell products are the same in foreign market under product-communication extension strategy. Here marketing strategy is standardized in the world market. Ethnocentric oriented enterprises adapt this strategy. Such enterprises observe similarities between home and foreign market for entering into international market. Pepsico and Gillette follow product-communication extension strategy.

Product Extension – Communication Adaptation

Product sold in the home country is exported to foreign market without any change in product characteristics, but marketing communication (promotional tools and appeals) is changed to sell products suitable to local conditions and other market characteristics in the foreign market. Polycentric oriented enterprises adopt this strategy. They observe differences in marketing communication process and tools between home market and foreign market and design marketing communication system suitable to the foreign market to export their products.

Product Adaptation and Communication Extension

Product sold in the home country is modified according to the requirements of the consumers and market characteristics and the modified products are exported to foreign countries, but market communication (product promotional tools and appeals) system does not change. The same market communication system used in home market is used for export market also. Geocentric oriented enterprises follow this strategy. They observe similarities and differences in the world market while formulating their product policy and strategy.

Dual Adaptation

Environmental conditions and preferences of consumers in the foreign market will persuade international marketer to follow the dual adaptation strategy. Product and market communication system for foreign market will differ that of home market. Product strategies and promotion strategies will differ from one market to another market under dual adaptation strategy. Geocentric oriented enterprises will find similarities as well as differences in the

world market. They follow dual adaptation strategy to market their products in the world market.

Product Invention

The existing standardized product or adapted product may not be suitable in certain regions of the world market due to poor purchasing power of the consumers. Purchasing power of the consumers in the less developed countries is very low. But majority of the world population is in less developed countries. So specific products other than standard and adapted become essential to fulfil the requirements of the consumers in the third world and less developed countries. It compels product invention. Battery is standardized and adapted in world market. Rechargeable battery is product invention. Portable genset is product invention. Warren J.Keegan defines product invention strategy as "higher levels of product performance and lower prices, which translate into greater customer value". International marketers may attempt to design and develop a new product to satisfy the need or want at a price which is affordable to the potential customers in the world market. At the same time the consumers must be satisfied with the performance of the product and the product strengthens consumer value. Mosquito coil, mat and liquid are in the order of product invention. Consumer value for liquid is better than coil and mat. Ricket & Colman and Godrej Saralee are actively involved in product invention related to household insecticide.

PRODUCT STANDARDISATION

Sak Onkvisit and John J.Shaw in their book 'International Marketing' have expressed that "the strength of standardization in the production and distribution of products and services is in its simplicity and cost. It is an easy process for executives to understand and implement and it also is cost effective. If cost is the only factor being considered, then standardization is clearly a logical choice because economies of scale can operate to reduce production costs". Technology oriented products and industrial products are more or less standardized in the world market. The level of product standardization falls on corporate orientation, nature of ownership and consumer characteristics and behavior.

Some specific products by their nature cannot be modified or changed according to local conditions. Example: musical recordings and works of art. These products are standardized in all international markets.

High-tech products are more or less standardized in all international markets. In high-tech products the users and producers desire to avoid confusion and strengthen compatibility by adopting industry specifications that make standardization possible.

Products associated with particular cultural universals are standardized in the world market. Watches are standardized in the world market. Watches are used to observe time around the world. Watches are identical products in the world market.

Ishmael P.Akash, in his research paper "Strategy Standardisation in International Marketing: An Empirical Investigation of its Degree of Use and Correlates" has expressed that the factors such as, "corporate orientation, nature of ownership and consumer characteristics and behavior influence the degree of strategic standardization".

Product standardization refers, 'marketing a product in the international market without any change in the features and it is otherwise called 'Straight Product Extension'. Philip Kotler has defined standardization as, 'take the product as is and find customers for it'. Coca-Cola, Kellogg Cereals, Heinekeen beer and Black & Decker tools are all marketed in about the same form in the world market successfully.

Product standardization is a part of product planning. It deals with the extent to which a company can market the same product in several different countries. Durable business goods are standardized products in the world market. Aircraft and Computers, Cameras, watches, pocket calculators, television sets are standardized products in the world market.

PRODUCT ADAPTATION

Product Adaptation is inevitable in the world markets. Product adaptation is influenced by several factors in the world market.

William J.Stanton has defined Product Adaptation as, 'modifying a product that sells successfully in one market to suit the unique needs or requirements of other markets.

Philip Kotler defines Product Adaptation as, 'changing the product to meet local conditions or wants'. It deals with adapting a product to meet local conditions or wants in foreign markets.

PRODUCT LIFE CYCLE

William J.Stanton, Michael J.Etzel and Bruce J.Walker, in their books 'Fundamentals of Marketing' have expressed that "Product Life Cycle, consists of the aggregate demand over an extended period of time for all brands comprising a generic product category". They further explained that during the introduction stage of a life cycle, a product category and virtually all brands within it – is unprofitable. Profits are healthy during the growth stage but then start to decline while a product's sales volume is still increasing.

V.S.Ramasamy and S.Namakumari in their book 'Marketing Management' have expressed that, "a product passes through certain distinct stages during its life. This cycle of stage is called Product Life Cycle (PLC)".

Philip Kotler and Gary Armstrong in their book, 'Principles of Marketing' have defined Product Life Cycle as, "the course of a product's sales and profits over its lifetime". It involves five distinct stages. They are, product development stage, introduction growth, maturity and decline. The five stages are explained below:

Product Development Stage

In this stage, idea for the product planning and development is generated and required steps are taken for product planning and development. The steps involved from the stage of product conceptualization to product making are covered under product development stage. The company has to incur capital investment and revenue expenditure in this stage, whereas sales will be zero.

Introduction Stage

This is the second stage in the product life cycle. In this stage, the product is introduced in the market. Sales will increase slowly. Profit will be minimum. In some cases there are chances for loss also. Because, in the introductory stage, company has to incur enormous expenses for introducing the product in the market. Product may be new to consumers. It will take sometime to increase sales and market share. So profit will be minimum in the introductory stage, which is the first stage of the product life cycle. Many washing powder brands and cosmetics brands stayed many years in the introduction stage in India to reach growth stage.

Growth Stage

Once the product is accepted by consumers in the introductory stage, the product will pass to growth stage. In this stage, sales and profit will increase. Marketer has to start and concentrate on product promotion strategies for further growth and increase of market share.

Maturity Stage

In this period, product will occupy a major share in the market. Further growth may stop. Majority of the buyers may be the end users of the products. Philip Kotler has rightly pointed out that "maturity stage is a period of showdown in sales growth because the product has achieved acceptance by most potential buyers". Competition will increase in the maturity stage. Expenditure on product promotion and sales promotion will increase to face the competition. The increase in expenditure relating to product promotion may scale down the profit. New players will enter into the market to share the market of the existing players enjoying maturity stage. Marketers should attempt to strengthen their marketing mix in order to stay in the maturity stage. Product strategies, pricing strategies, distribution strategies and promotion strategies should be designed suitably to withstand in the competitive market and for a permanent stay in the maturity stage. Otherwise, the product will pass to decline stage.

Philip Kotler has suggested to modify the market, modify the product and to modify the marketing mix. Modifying the market refers finding new users for the product and new market segments. Fast moving consumer goods companies find new users in the rural market to increase their sales and market share. Modifying the product refers changing product characteristics (quality, features, packing, low cost units etc) in order to attract new users and to increase sales. Product durability, reliability and consumer value should be strengthened and increased. LG has introduced 45 new models in its product line in the year 2001 and planned to introduce 60 new models in the year 2002 to maximise its product. LG took steps to change characteristics of its refrigerators and became market leader in the market. Similarly in other consumer electronics and appliances. Product characteristics of health drinks (horlicks, boost, complan) are suitably improved to face competition and to increase market by finding new users, market segments and retaining the existing customers. Modifying marketing mix refers changing one or more elements of marketing such as product, place, price and promotion. New product development, reducing prices

and providing discount and free offer, extensive advertisement campaign and aggressive sales promotion activities, strengthening physical distribution system effective use of existing channels and creating new channels for distribution are examples for modifying marketing mix.

Decline Stage

This is the last stage of the product in the product life cycle. In this stage, sales and profit will decline. Market share will decline. Competitors will swallow a major market share. Frequent product promotion and sales promotion activities will come down due to poor sales and profit performance. Consumers will prefer alternative products, consequently production will come down. If the company is not able to revive its market share in this stage, product will disappear soon from the market.

Table: Characteristics and Implications of different Product Life-cycle Stages

Each stage of a product's life-cycle has different characteristics; as a result, marketing must be modified over the course of the cycle.

Stage	*Introduction*	*Growth*	*Maturity*	*Decline*
Characteristics	Customers	Innovators	Massive Customers	
Competition	Low levels	Rapid growth then risking	Slow/no annual growth	Declining
Profits	None	Strong then at a peak	Declining annually	Low/none
Marketing Implications				
Overall strategy	Market development	Market penetration	Defensive positioning	Efficiency or exit
Costs	High per unit	Declining	Stable or increasing	Low
Product strategy	Undifferentiated	Improved items	Differentiated	Pruned line

Pricing strategy	Most likely high intensive	Lower over time intensive	Lowest distribution selective strategy	Increasing scattered
Promotion strategy	Category awareness	Brand preference	Brand loyalty	Reinforcement

Source: William J.Stanton, Michael J.Etzel and Bruce J.Walker, "Fundamentals of Marketing" p.247.

PRODUCT CHARACTERISTICS

Product is a basic element of a marketing programme. Nature of the product tells features of a company. Product strategy must be designed carefully to stay in the competitive global market. Product is defined as "a collection of physical, service and symbolic attributes which yields satisfaction, or benefits to a user or buyer". Product management is dealt with the decisions that influence perception of the firm's product offering.

Product strategy depends upon the characteristics of the product. Product characteristics influence global marketing product decisions. John Fayerweather has suggested five important characteristics of a product. They are

i) Primary functional purpose

ii) Secondary purpose

iii) Durability and quality

iv) Method of operation and

v) Maintenance

The important product characteristics are primary functional purpose and secondary functional purpose. The purpose of using the products in high income countries and low income countries must be ascertained in advance before introducing the product. The purpose of using a particular product will vary from one country to another country. Products must be designed in such a way to match the purpose of usage of the products. For example, refrigerators are used in high income countries for various purposes. In low income countries refrigerators are used for limited purposes. Separate designs may be introduced for the refrigerators that are marketed in high income countries and low income countries. In high income countries refrigerators are used to store frozen foods,

to preserve perishable food, to keep bottled drinks cold for short-notice consumption and other refrigeration purposes. In high income countries considering the utility of refrigerators, a big size refrigerators with added features may be designed and marketed.

In low income countries, frozen foods are not popular, people will not prefer frozen foods. They shop daily rather than weekly. They may feel refrigerator is a luxury product. Their primary purposes of using refrigerators are limited. They use to store small quantities of perishable foods for a day and to store leftovers for slightly longer periods. In low income countries considering the limited use, a small size refrigerators may be introduced and marketed. Big size refrigerators with added features in advanced countries and small size refrigerators in low income countries.

In some developing countries, refrigerators are used to fulfil prestige value. Using refrigerators for storing frozen food or perishable food is limited. Using refrigerators for primary purpose (storing food, storing perishables) is reduced. They are used for secondary purpose i.e., prestige value. Refrigerators are not placed in kitchen. They will be placed in the reception hall to display the prestige value. Here attractive design must be given preference rather than utility value. Product strategy depends upon the purpose of using the product, whether it is primary or secondary. Similar to refrigerators, automobiles (two wheelers and four wheelers) are designed in such a way to fulfil the requirements of the buyers in various parts of the countries. Size, colour, design, pulling capacity and weight of the two wheelers will differ from one country to another.

Durability and quality characteristics influence product design and strategy. In high income countries repairing the products become expensive. In low income countries it is not so. People will get goods repaired and use. In high income countries people use the concept 'use and throw', and of low income countries people use the concept 'use-repair-use'. Durability and quality of the products must be suited to the availability of service within a market. Product must be designed separately for the high income countries and low income countries based on the durability and quality characteristics of the products. Service engineers must be made available to ensure durability and quality of the products.

Method of operation and maintenance are important considerations in determining product design and characteristics. Method of operation and

maintenance must be easy to learn and follow. The maintenance cost must be low.

Global marketers should ascertain answers for the following questions for designing product strategy.

- Who uses the product?
- When it is used?
- For what and how it is used?

Answers for the above questions reveal product-market relationship. The product introduced should be related to the market. The product should be absorbed by the market immediately and that to extent there must be a relationship between product and market. Product-market relationship identifies the requirements for adaptation in the global market.

MANAGEMENT ORIENTATION

Orientation of management and companies is one of the important factors influencing product strategy. Orientation of management and companies is classified into four types. They are,

i) Ethnocentric
ii) Polycentric
iii) Regiocentric and
iv) Geocentric

Ethnocentric

Enterprises having the orientation of Ethnocentric feel that home country is superior and they attempt to observe similarities in foreign countries. In Ethnocentric orientation, the question of product adaptation will not arise. Enterprises will try to export the products which are sold in the domestic market. Product strategy depends on the consumer behaviour in the democratic market.

Ethnocentric {
Home country oriented
Home country is superior and
Observing similarities in the
Overseas market.

Polycentric

Enterprises having the orientation of polycentric feel that each host country is unique and they attempt to observe differences in foreign countries. In polycentric orientation, the question of product adaptation arises. Similarities in foreign countries are not observed. Product sold in the overseas markets have to change their product strategy suitable to the differences in foreign countries. The focus of the polycentric is on adapting to what is different in a country.

Polycentric: Each host country in the overseas market is unique and identifying differences in foreign countries.

Based on differences in using product in one country to another country, product features will be modified and adapted to the market conditions in the overseas market.

Regiocentric

Enterprises having the orientation of Regiocentric observe similarities and differences in a world region. Such enterprises can go ahead with product standardization and adaptation in the global market.

Regiocentric: observes similarities and differences in a world region [Rest of the world].

Geocentric

Enterprises having the orientation of Geocentric observe similarities and differences in home and host countries. They observe global market and global resources. They serve world market and use world resources such as human, financial and material project strategy of such enterprises depends upon the similarities and differences in home and host countries.

PRODUCT DESIGN STRATEGY

Product design is one of the factors influencing success in international marketing. Global marketer should decide whether to enter in the global market with a single design or adapt product design fulfilling the varied requirements of the overseas market. Product design influenced by the following factors.

a) Preferences
b) Cost

c) Laws and Regulations

d) Compatibility

Preferences

Global marketers should concentrate on the important differences in preferences in the global market for factors such as taste, colour, packing, durability etc., while designing products for the global market.

Cost

Cost is another important factor influencing product design strategy. Cost competitiveness should be given priority. Repairing cost and maintenance cost should also be taken into account while designing the product. In certain products, price may be less, but repair and maintenance cost will be high. Price may be high for some products, but periodical repair and maintenance cost will be low. Products must be designed in such way that initial price and periodical repairs and maintenance cost must be balanced.

Laws and Regulations

Product designed by the global marketers should fulfil all legal requirement of the overseas market. Legal requirements may compel global marketers to follow product adaptation. In the world market, passenger cars should fulfil Euro II norms. This regulation is also made compulsory in India also. The prevailing laws and regulations in the overseas market influence product design strategy. Packaging and labelling laws in overseas market should be properly followed in all the stages of product design.

Compatibility

Global marketers should ensure product compatibility with the environment in which the product is marketed and used. Automobile design in cold countries may be different from the automobile design in hot countries. Similarly packing of food products. Product design should be compatible to the availability of infrastructure, type of climate, availability of technology, skilled manpower and other facilitating factors.

Product is defined as "a bundle of utilities or satisfaction".

PRODUCT POSITIONING STRATEGY

Philip Kotler and Gary Armstrong in their book 'Principles of Marketing' have defined product positioning as, "the way the product is defined by consumers on important attributes – the place the product occupies in consumers' minds relative to competing products'. A product's position is the complex set of perceptions, impressions and feelings that consumers hold for the product compared with competing products. William J.Stanton, Michael J.Etzel and Bruce J.Walker have defined product positioning in their book 'Fundamentals of Marketing' as "developing the image that a product projects in relation to competitive products and to the firm's other products".

Global marketers should plan in advance about their target market and positioning of their products in the global market.

- Product Positioning in the World market
- Toyota Positioned on 'economy' Mercedes
- Positioned on 'luxury' Volvo
- Positioned on 'safety'

Products can be positioned on specific 'product attributes' such as price, durability, performance etc.

Products can be positioned on certain classes of 'users'. Johnson and Johnson is positioned as baby care products.

Products can be positioned directly against a competitor. Advertisement message "White tooth paste does not contain mouth wash as in Close Up". Here Close Up is positioned in mouth wash.

Product positioning strategy deals with identifying a set of possible competitive advantages on which to build a position, selecting the right competitive advantages and effectively communicating.

Product positioning strategy deals with

(i) Ascertaining competitive advantages of the product on which to build a position. Example: Product X is cheaper than others. Product X is positioned as a low priced products, low price in competitive advantage.

(ii) Choosing the right competitive advantage Companies should choose right competitive advantage which stays for a longer period and does not copied by competitors easily, for positioning their product.

(iii) Communicating and delivering the identified position of the product effectively to the target market.

Product positioning will be completed when the communication is reached to the target member effectively about the position marked for the product by the company.

Product differentiation will contribute to product positioning. Product differentiation is made on the product attributes such as consistency, durability, reliability and repairability.

Global brands should be positioned uniformly in all the countries. If the brand is positioned as a premium brand in the domestic market the same positioning can be done in the overseas market also. For example, Marlboro is a global brand. It is positioned as an urban brand in all countries. Heineken beet is positioned in all countries as a premium beverage. Le'oreal hair dye is positioned as a premium product in the every market.

Global brands are marketed in the same pattern in all the countries. In certain situations they are adjusted to fulfil the needs to the local consumers and competitive requirements. Coke and Pepsi are global brands. They are marketed in the same way in every market in the world. Coke and Pepsi increased sweetness in middle East countries because people in these countries prefer sweeter drink. In Indian market Pepsi has introduced 200 ml bottled softdrink also to fulfil the needs of the local consumers.

NEW PRODUCT DEVELOPMENT STRATEGY

Companies are expected to introduce new products in order to fulfil the changing needs of the consumers, changes in technology and competition, both in domestic market and international market. New product can be introduced in two ways. First one is acquisition. Buying another company, a patent or a license to manufacture other's products. These products are new products of the company acquired company. The second one is giving entirely new product with added features to the market through constant research and development efforts of the company.

Philip Kotler has defined New Products as "original products, product improvements, product modifications and new brands that the firm develops through its own research and development factors".

While attempting new product, global marketer should estimate the target market correctly. Otherwise new product may fail. Product may be good. But due to overestimation of target market, companies may face failure in their strategy of new product development. Product designing is another factor to be considered in this strategy. If the new product is not suitably designed for the target market, the product will fail.

Product positioning, pricing and promotion should be seriously considered in all stages of deciding new product development strategy. If the new product is positioned incorrectly it will not succeed in the target market. Product positioning strategy becomes an essential aspect in new product development strategy. If the price of the new product introduced is too high to buy, consumers may not support the new product. Another important strategy to be considered for new product development is 'promotion'. The new product introduced should be effectively promoted in the target market and promotion inputs should reach the ultimate buyers.

Cost of new product development should be manageable. If the cost exceeds estimation, new product may not yield expected benefit to the companies. Competitors' behavior should be observed while introducing new product. Because they may counter heavily than expected. competitors may change their promotional strategies to marginalize new products came into the market.

Success factor in the new product development strategy is 'unique superior product'. New product should possess superior quality, new added features not available in competing products and excellent use value. Philip Kotler has expressed that products with a high product advantage succeed 98 percent of the time, compared to products with a moderate advantage (58 percent success) or minimal advantage (18 percent success).

Robert G.Cooper and Elko J.Kleinschmidt in their paper, 'New Product: The Key factors in Success have expressed that "an important success for new product development is 'a well defined product concept' prior to development, in which the company carefully defines and assesses the target market, the product requirements and the benefits before proceeding". Before introducing

new products in the domestic or overseas market, product must be defined in terms of target market (where to introduce), requirements of the products and proposed benefits of the products.

New products should fulfil legal and social requirements of the target market. New products should ensure consumer safety and ecological standards. If the new product is highly successful, competitors will enter immediately to copy the new products and life of new products will come down in target market. So managing competition becomes essential in the new product development strategy.

New product development strategy deals with:

- estimating the target market
- product design
- product positioning, pricing and promotion
- cost of new product developments
- competitors' behavior
- quality and use value of the product
- legal and social requirements

New Product Development Process involves the following steps:

- Generation (internal sources, customers, competitors, distributors, suppliers)
- Idea Screening
- Concept Development and Testing
- Business Analysis
- Product Development
- Test Marketing
- Commercialisation

MARKET SEGMENTATION

Philip Kotler has defined market segmentation as, "dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes".

Warren J.Keegan, in his book 'Global Marketing Management' has defined Global Market Segmentation as, "the process of identifying groups or

sets of potential customers at either the national or subnational level who are likely to exhibit similar buying behavior".

William J.Stanton, Michael J.Etzel and Bruce J.Walker, in their book 'Fundamentals of Marketing' have defined Market Segmentation as, "a process of dividing the total market for a good or service into several smaller groups, such that the members of each group are similar with respect to the factors that influence demand. A major element is a company's success is the ability to segment its market effectively".

Factors determining buying such as wants, resources, locations, buying attitudes and buying practice will vary consumer to consumer. So marketer should design separate and specific marketing programme to the identified group of consumers who are likely to exhibit similar buying behavior. For example Hyundai Motor produces different types of cars suitable to the consumers of different income and age groups. Johnson & Johnson concentrates on baby care products in Indian market. Business prosperity is excellent in this segment.

BASES OF MARKET SEGMENTATION

Bases of market segmentation are given below:

a) Geographic Segmentation

b) Demographic Segmentation

c) Psychographic Segmentation

d) Behavioral Segmentation

Geographic Segmentation

Following geographical units are considered for Geographic Segmentation:

Nations, States, Regions and Cities.

Geographic segmentation refers dividing the entire market of a company into different groups based on the geographic variables such as, states, region, states and towns.

Geographic segmentation refers subdividing market based on geographic distribution – the regions, countries, cities and towns where people live and work – is widely used.

In the domestic marketing, marketers may decide to operate in the entire country or in a selected region. They have to consider and concentrate on unique geographical differences in needs and wants. 'Bril Cream' is marketed in North India, whereas in South India there is no market for this product. Fast foods can be sold only in Metropolitan and other selected cities. The entire market should be divided into different geographical units. Accordingly all the product promotion and marketing programmes are designed. Designs and materials (inputs) used for readymade garments will vary from cold region to tropical region. Hence market for all products, (consumer products & industrial products) is segmented geographically. Cellular companies have segmented their market geographically and designed their market promotion programme accordingly.

Demographic Segmentation

Demographic segmentation refers dividing the entire market of a company into different groups based on the demographic factors. The factors are, age, sex, family size, income, occupation, education, religion and nationality.

Demographic factors serve as a base for segmenting customer groups. The entire market can be segmented into popular three segments called age segmentation, gender segmentation and income segmentation.

Needs, preference and wants of the consumers will change with age. Preference will vary from one group to another age group. Marketers should introduce products suitable to different age groups. In the readymade garment sector, dresses are made available to all age groups of customers. Jeans, trousers, and shirts are especially made for teenage groups. Smithklime Beecham Consumer Healthcare has introduced Junior Horlicks meant for children. Tooth Brush companies produce tooth brushes for children, adult and other age groups. Music instruments are produced for different age groups. Age segmentation must be carefully considered by all marketers in order to increase their market share and for further penetration.

Gender segmentation is in practice in clothing, cosmetics and magazines. Clothing for male and female, cosmetics for male and female and like that magazines also are popular nowadays. Gender segmentation is appropriately applied and used in marketing of shoes and chappals. Marketers should observe

the gender segment and tailor their production and marketing programmes accordingly. TVS Scooty and TVS Victor are examples of gender segmentation.

Income segmentation divides a market into different income groups. Income segmentation is used for all consumer goods and it is used in services marketing also. Fast moving consumer goods companies follow income segmentation in all their production and marketing programmes. The Hindustan Lever Limited, Procter and Gamble and other companies in FMCG sector produce products suitable to higher income group, middle income group and lower income group. Their product line extension caters to the needs of the various groups of customers. Their premium products are for higher income and middle income group customers. HLL's 'Surfexcel' for higher income group, 'Surf' for middle income group and 'Wheel' for lower income group customers. Similarly other companies take care of income segmentation in their production and marketing policies.

Teresa J.Domzal and Lynette Unger, in their research paper (quoted by Warren J.Keegan) 'Emerging Positioning Strategies in Global Marketing' have stated that "demographic segmentation is based on measurable characteristics of population such as age, gender, income, education and occupation. A number of global demographic trends, such as fewer married couples, fewer children, changing roles of women, and higher incomes and living standards are driving the emergence of global segments".

Psychographic Segmentation

Warren J.Keegan has rightly stated that psychographic segmentation is the process of grouping customers in terms of their attitudes, values and lifestyles. Philip Kotler has defined psychographic segmentation as, "dividing a market into different groups based on social class, lifestyle or personality characteristics". William J.Stanton has expressed that "psychographic segmentation which involves examining attributes such as personality and life styles".

Social class, lifestyle and personality of consumers play a vital role in determining their purchase decisions and type of product they buy. Marketers have to consider and concentrate on psychographic segmentation in their production and marketing policies and produce goods and services accordingly in order to expand their market size and improve market share. Apparel

companies and two wheeler companies design their marketing programme based on psychographic segmentation. Changing lifestyle of consumers pave the way for the cellular market expansion and other electronics products and automobile sector.

Behavioral Segmentation

Philip Kotler divides the consumers into different groups based on their knowledge, attitudes, uses or responses to a product. Warren J.Keegan has stated that behavioral segmentation focuses on whether or not people buy and use a product, as well as how often, and how much they use it. Consumers can be categorized in terms of usage rates – for example, heavy, medium, light and nonuser. Consumer can also be segmented according to user status – potential users, nonusers, exusers, first timers, and users of competitors' products.

Consumers will buy goods in certain occasions. Birth Day, Teacher's Day, Marriage Day, Valentine Day, festival occasions and religious functions are the examples of occasions. Marketers may concentrate on occasion segmentation. In the specific and particular occasion consumers are grouped, discuss the idea to buy certain products and buy the products. Easy to carry water coolers are used for excursion and other pleasure tours.

Benefit Segmentation

Philip Kotler has defined benefit segmentation as, "dividing the market into groups according to the different benefits that consumers seek from products. Benefit segmentation requires finding the major benefits people look for in the product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit". Preference of benefit from a product will vary consumer to consumer. Low price, decay prevention, bright teeth and good taste are the benefits consumers prefer from tooth paste. Similarly in other consumer goods, consumer durables consumers expect benefits. Expectation of benefit is not uniform among consumers. Benefit expectation will vary consumer to consumer. Benefit segmentation of the toothpaste market developed by Russell J.Halsey is reproduced below:

Benefit Segmentation of the Toothpaste Market

Benefit Segments	*Demographics*	*Behavior*	*Psychographics*	*Favoured Brand*
Economy (low price)	Men	Heavy users	High autonomy Value oriented	Brands on sale
Medicinal	Large families	Heavy users	Hypochondriacal Conservative	Crest prevention
Cosmetic (bright teeth)	Teens young adults	Smokers	High sociability active	Aquafresh Ultra
Brite Taste Colgate (good)	Children	Spearmint lovers	High self-involvement hedomistic	Aim

Source: Philip Kotler, Principles of Marketing, p.243 Market Targeting

Market targeting is the next marketing process after deciding market segmentation. Marketers should target their identified market and attempt to fulfil the needs, wants and preferences of the targeted market. Marketers should consider factors such as, (i) segment size and growth, segment structural attractiveness and company objectives and resources for evaluating different market segments. After evaluation, appropriate segment must be chosen and targeted for doing business.

Market size of a segment refers volume of sales. Growth refers possibilities to expand market size and market share. Marketers should select an appropriate segment where opportunities are witnessed for increasing market size and growth. Fast moving consumer goods companies target rural market for their products. Market size and growth are attractive in rural market. Washing soaps, detergent powders, shampoo – the volume of sales for these products in rural market is more than the urban market. Hence rural market is targeted.

Segment structure is evaluated in choosing target market. Pricing and promotion policy, number of competitors, market size, profitability, buyer behavior and problem of substandard products are structural factors of a segment

that should be evaluated by the marketers for deciding their target market. There are a few number of competitors in the baby care products segments. So companies have started to enter in this market. This segment attracts a many number of companies.

Above all, objectives and resources of the company will take a greater share in deciding target market.

Philip Kotler defined target as, "a set of buyers sharing common needs or characteristics that that the company decides to serve".

William J.Stanton has given four guidelines in selecting a target market. They are,

(i) Target market should be compatible with the organisation's goals and image,

(ii) Matching the market opportunity represented in the target market with the company's resources,

(iii) Target market should be selected that will generate sufficient sales volume at a low enough cost to result in profit, and

(iv) Company should ordinarily seek a market where there are the least and smallest competitors.

Target Market Strategies

There are three target market strategies. They are (i) Aggregation Strategy, (ii) Single-segment Strategy, and (iii) Multiple-segment Strategy.

Aggregation Strategy

It refers mass market strategy or undifferentiated market strategy. Under this strategy, marketer considers the entire market as a single segment. In this strategy, company attempts to introduce a single product for the entire market, one pricing system, one distribution system and single promotional programme for the entire market. The aggregation strategy is followed by companies producing undifferentiated product or staple products. Example- sugar, salt. Aggregation strategy provides the following advantages;

(i) overall maximization in cost of marketing,

(ii) production, distribution and promotion of products are performed efficiently,

(iii) large scale production at minimum unit cost. Single product for the entire market paves the way for large scale production that contribute to minimize unit cost,

(iv) inventory cost, warehousing and transportation cost and promotion cost are minimized. Mass distribution and mass advertisement are possible in aggregation strategy.

William J.stanton's aggregation strategy is called as undifferentiated marketing strategy by Philip Kolter. It is defined as, "a market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer".

Single-segment Strategy

Single-segment strategy is called concentration strategy. Philip Kotler has named it as concentrated marketing strategy. It refers selecting one segment as a target market from the mass market. Single suitable marketing mix is designed for the target market exclusively. This strategy helps to expand market size and market share in one market in depth and get reputation in the identified segment. Risk is very high in single market strategy. If the market potential for the single segment declines, company will severely suffer. Once a company's product is well established in one segment, it may be difficult to introduce the product in another segment. Nirma's products are marketed in lower income segment. If Nirma comes forward to introduce products of higher income group, it may be difficult to gain market in that segment. Small share in large market is in aggregation strategy, whereas in single segment strategy large scale in small market. Philip Kotler has defined this strategy as, "a market-coverage strategy in which a firm goes after a large share of one or a few submarkets". He has further expressed that, "through concentrated marketing, a firm achieves a strong market position in the segments it serves because of its greater knowledge of the segments' needs and the special reputation it acquires. It also enjoys many operating economies because of specialization in production, distribution and promotion. If the segment is well chosen, the firm can earn a high rate of return on its investment". LG and Samsung concentrate in consumer electronics and appliances in India for middle income group.

Multiple-segment Strategy

Companies will identify two or more different groups of customers as target markets. Two or more segments are identified as target markets. Marketing mix will differ segment to segment. Companies will design marketing mix appropriate to a segment. Companies will attempt to fulfil the unique needs and preferences of consumers in different segments, so separate marketing mix for each segment. Automobile companies in India follow multiple segment strategy. TVS Motors has introduced TVS XL and Victor to suit the requirements of lower income group and middle income group. Procter & Gamble and Hindustan Lever Limited follow multiple segment strategy. In this strategy, companies will attempt to introduce a different version of the basic product for each segment. i.e. new product development strategy will be designed to face competition in the market. Distribution strategy and promotion strategy will be tailored according to the requirements of each segment. Amul has entered into chocolate business in addition to its core business of dairy products.

Sales in multiple segment strategy will be more than the single segment strategy. This strategy is an expensive one. Expenses relating to distribution and promotion activities will increase due to taking care of the requirements of multiple segments.

Multiple-segment strategy is also called differentiated marketing strategy. It is defined by Philip Kotler as, "a market coverage strategy in which a firm decides to target several market segments and designs separate offers for each". Products offered will differ from one segment to another segment. Companies will do their business in two or more segments in order to increase their volume of sales and market share.

Branding

Branding is the management process by which a product is branded. It is a general term covering various activities such as giving a brand name to a product, designing a brand mark, and establishing and popularizing it.

Trade Mark

When a brand name or brand mark is registered and legalized it becomes a trade mark. Thus registered brands are trade marks. "All trade marks are brands but all brands are not trade marks. Trade mark is defined as "a brand or

part of a brand that is given legal protection". Thus, the trade mark is essentially a legal term, protecting the manufacturer's right to use the brand name or brand mark.

Trade Name

Trade Name is the name of business, preferably the name of the organization itself. A trade name may also be a brand name, but in such a case if serves two separate purposes, it brings out the identity of the manufacturer and the product. (eg) TATA, GODREJ is both a trade name and a brand name for more of their products. (eg) Godrej Locks, Godrej Soaps.

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Essentials of a Good Brand Name

Selection of a particular brand is very critical decision to be taken by an enterprise. Because brand may determine the success or failures of the enterprise. So, care should be taken while selecting a brand. A good brand name must possess the following desirable qualities:

(1) Name of Brand: The name of brand must suggest about the product for which it is selected, such as – its use, quality, purpose, performance and nature, for (eg) Surf Excel, Bournvita.

(2) Simple and Short: The name of the brand must be simple and short. It must be easy to pronounce, to spell, to remember, to identify and to explain. (eg) Bata, Amul, Lux, Usha etc.

(3) Identification: The name of brand must be different from that of other products for easy identification.

(4) Heart Touching: The name of brand should be selected that it should attract the heart feelings of consumers. The heart should have its own image in the minds of consumer.

(5) Legal: The brand name must be capable of being registered and protected legally.

(6) Easy to Advertise: The name of brand must be selected keeping in view the advertisement. The selected brand name should be easy to advertise in the competitive market.

(7) Economic: In general, brand should not be expensive. It must be economical for printing, advertising/demonstration.

(8) Suggestive: The name of brand should be of the nature that it should suggest the consumers to buy a particular product or to do a particular work. (eg) Sleepwell, Good Night, Sunlight and Made Icecream etc.,

Global Brands

A global brand is defined as a brand that is marketed according to some strategic principles in the global market.

Global Brand – Same Positioning

A global brand is positioned the same way in all markets of the world. If the brand is positioned as a premium priced in the home country, it will carry a similar positioning around the world. For (eg) Heinekeen beer is positioned around the world as a premium beverage.

Same Marketing Approach

A global brand follows similar marketing approaches in all markets of the world. However, the marketing mix may be adopted to meet the needs of local consumers and competitive requirements. for (eg) Coke and Pepsi both increased the sweetness of their beverages in the Middle East where customers prefer a sweater drink.

The essential characteristics of a Global Brand is not an absolutely uniform.

Middlemen's Brand

When a manufacturer does not use any brand for his products and the middlemen (like wholesalers, retailers, etc) sell the product under their own brand, it is known as Middlemen's Brand.

The manufacturer merely produces goods as per specification and requirements of distributors and he need not worry about marketing. In India this practice is popular in woolen and sports goods.

According to the Market Area:

1. Local Brand: When a brand is used for a local market, it is called local brand.
2. Provincial Brand: When a brand is used in a particular state it is called provincial brand.
3. Regional Brand: In this type of brand, a manufacturer divides the whole market of his products into several regions and uses a different brand for selling his products in different regions.
4. Individual Brand: When a business uses different brands for all of its products, it is called individual brand. For (eg) All the toilet soaps of Hindustan Lever Limited are marketed with different brands, such as – Lux, Rexona, Lux-Supreme etc.

According to the Number of Products:

1. Family Brand: When a industrial enterprise uses a single brand for all its products, it is known as family brand. For (eg) all the products of Bajaj group are marketed with the word 'Bajaj', such as – Bulb, Tubelight, Scooter, Ceiling Fans, Mixer, etc.
2. Product line Brand: When a business uses different brands for different product lines, it is called product line brand.

TYPES OF BRANDING

Family Brand

In this case, different products of the company are marketed under one brand name. For (eg) Bajaj is the common name for the company's Bulb, Tubelight, Scooter, Ceiling Fan, Mixer, etc.

It is convenient to use a family brand, for related products. Product promotion, advertisement and new product development becomes easier and less expensive. But the marketer should ensure that all the products marketed under the family brand maintain the same standards of quality. If one product in the group becomes a substandard, it will affect the entire range of products covered under the family brand.

Corporate Brand

Using company name as a family brand name for all products offered in the market is known as corporate brand. For (eg) Godrej, Philips, Cadbury's etc., Godrej Co., used the word 'Godrej' on all its parts such as Typewriter, Soap, Refrigerator etc.

The brand remained a visual mark for many years. For many years till many a unique mark got exhausted. Till the clutter of the visual mark got so confusing that the need for the audio brand, the brand that could be written in script and articulated by voice, became dominant.

The audio brand is a big reality today. Amidst the clutter of the audio brand names, there is seldom any brand that one comes by that is solely a visual mark. Every brand name in the market today is a name that can be pronounced vividly with an audio quality that is rich in its tone and tenor.

Audio branding remains an important part of brand society today. The brand name, first of all, is a sound! A high sound.

This sound needs to be just right, universally pronounceable with ease, and must convey a positive feel of the brand in question. The brand name must, therefore, sound just right.

When we create the brand name for that brand of butter or booze alike, be sure that the sound is just right. Be sure that the sound is accessible to all parts of your primary, secondary, tertiary, and even accidental target audience! The sound needs to be friendly. It needs to give the brand an overall feel-good factor as well.

The brand also needs to be visible not only at the point of purchase, but also at every point in the visual continuum that a consumer lives through. It starts with pieces of advertising messages that reach the home of the consumer with television, the friendly radio station and the omnipresent newspaper doing their bit.

With advertising in-home having been done and tackled, the brand demands more. More visibility and more attention. The realm of outdoor advertising of every kind is therefore explored. More innovative the brand manager, greater is the variety of media used to promote the brand name.

LABELING

It is one of the product features related to packaging. Labeling, packaging and branding are closely associated. Label is defined as, "the part of a product that carries information about the product and seller. It may be part of a package, or it may be tag attached to the product". (William J.Stanton, Fundamentals of Marketing). Labels are classified into three types. They are, (i) Brand Label, (ii) Descriptive Label and (iii) Grade Label.

Brand Label reveals brand name only. This label is applied to the product or package. Label revealing the brand name "Coca Cola' only is known as Brand Label.

Descriptive Label reveals detailed description of the product. Labels used for pharma products are known as Descriptive Labels. Horlicks Label shows details of the product such as product's use, ingredients, care, performance and other product features. Labels used by health drinks are descriptive labels. Companies should ensure that their labels provide required information about the products to consumers.

Grade Label reveals judged and proven quality of the product in terms of letter, number or word. Example: Grade A, Grade B, Grade C.

Labeling should not be false or deceptive.

Labeling should satisfy all legal formalities of the Government for domestic trade as well as international trade.

PACKAGING

Packaging is an element of product strategy. It deals with designing and producing the container or wrapper for a specific product. Packaging will vary product to product. Product nature (liquid, bulk, technology involved, type of use etc) will decide type of packaging. Package refers container or wrapper used for packaging a product. Packaging is a silent advertiser. It builds image of the product and producer. Packaging should be attractive and it should help the consumers to know what is inside. Packaging should protect the product during transportation. Appropriate packaging is needed to transport consumer durable and electronic products from production point to wholesale or retail point. Packaging should provide protection after the product is purchased. The system of packaging should avoid evaporation, spilling and spoilage. Marico Industries

has changed it package system of its coconut oil containers suitable to the winter season in north India. Medicines and some other harmful products' packaging should be 'childproof' closures that will avoid opening of containers by children. Packaging should serve as a part of marketing programme of a company that will fulfil the requirements of wholesalers, retailers and other distributors. Packaging size and shape should be suitable for product display and stacking the product in the shop. Packaging should attract attention of the consumers and help to identify a product. Packaging serves as a silent salesperson and means of communicating with consumers.

Similar packages used for all products of a company is known as family packaging. Packages with a common and clearly noticeable feature is also called family packaging. In it, companies attempt to develop a resemblance in packaging their product line or related products. Multiple packaging refers packing several units of the same product in one container. Detergent soals, towels, sarees, cosmetics etc are packed under multiple packaging. So many units of soaps are packed in one package. The special features of packaging are, (i) product protection, (ii) consumer convenience and (iii) marketing support. Producers should fulfil the legal formalities prescribed for packaging of various products.

QUESTIONS

1. What is new product development? Explain the steps involved in new product development process.
2. What is market segmentation? Explain the basis of market segmentation.
3. Explain product positioning strategy in the export market.
4. What do you understand by product life cycle?
5. What is brand? Explain importance of branding in export market.

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CHAPTER–IV

PRICE MIX

Objective of this lesson is to make learners to understand

i) pricing decision and factors influencing export pricing,

ii) international transfer pricing,

iii) countertrade and its forms,

iv) price quotations in export market, and

v) financing and payment in export market.

EXPORT PRICING – INTRODUCTION

Pricing is one of the elements of marketing mix. Price is an important factor influencing purchase decision. Exporters and importers pay much attention towards the price fluctuations in the International market. In the International market pricing function depends not only based on the costs involved in production of goods and services but also changes in demand and supply forces. Exporters are expected to observe the extent of demand and supply of commodities in the global market for the purpose of price fixation of their exportable commodities. Alan M.Rugman and Richard M.Hodgetts in their book 'International Business' have expressed that "Pricing of goods and services in the International marketplace is of often influenced by factors present in home market pricing. These factors include government controls, market diversity, currency fluctuations and price escalation forces".

Export pricing influences domestic pricing also. For example, Brazil is market leader in the world coffee market. Any fall in coffee production in Brazil will affect coffee supply in world market and coffee prices will increase in world market. This increase, will create hike in the coffee price in Indian market, though coffee production in Indian is more than the demand. Here export pricing influences domestic pricing.

In certain situations domestic pricing will influence export pricing. For example, bumper harvest of chillies will reduce prices in the domestic market. This decrease will make Indian Chilly exporters competitive in the international chilly market. Export prices of Indian chillies in the international market will be based upon the chilly prices in the domestic market. Here domestic prices

influence export prices. Exporters should adopt suitable pricing policies to keep their prices competitive in the world market.

Export price is defined as a price at which exchange of goods and services take place in the international market. It is an amount for which the exporters are willing to export and importers are willing to import a specific goods or services. Export pricing is a crucial task. It deals with domestic and international business environment.

EXPORT PRICING OBJECTIVES

Export pricing objectives are given below:

i. Profit Maximisation
ii. Return on Investments
iii. Increasing Market Share
iv. Preventing New Entry
v. Entering in the Highly Competitive Markets
vi. Export Obligation
vii. Price Stabilisation

Profit Maximisation

Profit maximization is the basic objective of export pricing. Export trade is a risky one. In this risky venture, profit maximization is inevitable. Exporters should fix price of their exportable commodities in such a way to maximize profit in the export business. Export pricing decision is not only in the hands of exporters. Importers negotiate with exporters for getting competitive price. Price negotiation plays a vital role in export pricing. Even after negotiation, market price must be profitable to exporters and he should ensure profit maximization.

Return on Investment

Investments made in the export business should earn reasonable return. Export price should pave the way for getting reasonable return on investments. Earning reasonable return on investment is another objective of export pricing. Exporters should decide in advance the reasonable return on investment and fix export price accordingly.

Increasing Market Share

Increase export market share is one of the objectives of export pricing. In general, exporters try to penetrate in the global market and increase their share in global business. Export policy should contribute to increase export market share. By utilizing advanced technology in production many multinationals reduce their production cost and reduce export price for the purpose of increasing export market share.

Preventing New Entry

Some multinational companies will reduce their export price in order to prevent other companies to enter into the export business. It avoids competition. Companies reducing their export price will get better market in the international market comparing the other companies do not reducing export price. The usual practice of the multinational companies is to fix low price at the initial stage of entry in order to penetrate in the export market and at later stage they may provide so many incentives and offers in order to prevent other companies to enter into the market. Export pricing should provide sufficient strength to export firm to stay for indefinite period in the export business.

Entering Highly Competitive Areas

Multinational companies makes it possible to enter into the highly competitive international markets through their competitive pricing policies. Export companies will reduce their prices in order to enter into the competitive markets. Export pricing should pave the way to the corporates to enter into highly competitive international market.

Export Obligation

Exporters who avail export promotion schemes should fulfil the stipulated export obligation. For example, exporters availing Export Promotion Capital Goods Scheme for importing capital goods for the purpose of manufacturing exportable commodities should export six times of the CIF value of imports during the period of eight years. Here export becomes compulsory. Exporters should design suitable export pricing for the purpose of fulfilling export obligations during the stipulated period. Fulfillment of export obligation is one of the objectives of export pricing. Export companies are expected to fix whatever price they may get in order to fulfil their export obligations.

Price Stabilisation

Maintaining stability in prices is another objective of export pricing. Price stability is an important factor in the international market. Product quality is standardized in the international market, so buyers pay attention towards price. Exporters should retain stability in the prices of their exportable commodities. Many export companies like to keep their prices stable over a long period of time. This is done for the purpose of removing cyclical/seasonal variations in prices. For this reason, export firms may change a slightly higher price when prices are falling in the international market and may change slightly lower price when prices are rising.

ESSENTIAL FACTORS INFLUENCING EXPORT PRICING

There are a large number of factors influencing export pricing. The factors are classified broadly into two categories. They are, Internal Factors and External Factors.

Factors Influencing Export Pricing

Internal Factors	***External Factors***
a) Costs	a) Competition
b) Company Objectives	b) Demand
c) Type of Product	c) Government's Policy
d) Nature of Transactions	d) Exchange Rate and
e) Other Elements of Export Costs	e) Credit Marketing Mix

Export pricing depends upon the cost of production, distribution and promotion of the exportable commodities and a fair rate of return is also included in the export pricing. Costs are divided into two types. They are fixed cost and variable cost. Fixed cost includes salaries to office staff, rent, electricity, depreciation etc., Variable cost deals with the costs which vary in proportion to changes in the level of production, such as cost of materials, direct labour, packaging etc.

Cost is a major factor influencing export pricing. Export oriented economies, newly industrialised economies and highly developed countries try

to reduce their cost of production by utilising the advantages of large scale production and sophisticated technology development. They keep their prices competitive in the export market and they are able to generate huge profit by maintaining their production cost at lower level. Reducing production costs of exportable commodities is the primary agenda of the developing countries and newly entered countries in the international market.

Company Objectives

Export pricing depends upon the objectives of the firms entering into international market. The objectives may be (i) making a fresh entry in a highly competitive world market, (ii) maximising the current level of profit or (iii) promoting an image of being stayed in the international market as a supplier of high quality goods. Export firms have to adopt suitable pricing policies based on their objectives for entering into international market. New entrants in the international market may follow Skimming the Cream Pricing or Penetration based on their product nature and time of entry.

Types of Products

Types of Products is another important internal factor influencing export pricing. Products are classified into (i) Branded Products, (ii) Specific Commodities, (iii) Status Goods and (iv) Stage of the Product in the Product Life Cycle.

Branded products are easily marketed in the international market and they enjoy buyers' confidence and are able to command a higher price. Branded goods not only earn higher price but they earn confidence of the buyers also. Export Firms should concentrate on branding their products and try to popularize their brands in the global market. Branding decides export pricing. Branded garments, shoes or any other branded products are sold at higher prices comparing the similar unbranded products. Branded goods are differentiated from the unbranded ones on the basis of quality, durability, better service etc.

Specific Commodities

The market for the specific commodities like sugar, coffee, tea, spices etc is homogeneous and highly competitive also. Export firms have to exercise greater control over the prices of the specific commodities, because prices are determined by market forces (demand and supply) in the international market. If the supply is more than the demand, prices of those commodities will fall in the

international market. Cost of production may not be the primary factor in determining prices in such type of situation.

Status Goods

Status goods are sold at higher prices. They command prestige value. Export firms can sell their status goods like branded perfumes and other cosmetics at higher prices compared to their low priced substitutes. It is presumed that price is an indicator of quality and consumers may prefer products which are sold at comparatively higher prices than the other products.

Stage of the Product in the Product Life Cycle

Stage of the Product in the Product Life Cycle (PLC) will determine price of that product. Innovative and new products can be sold at higher prices and level of competition will be low for the innovative products. Innovative products at the introductory stage of Product Life Cycle may command high prices. At this stage companies may adopt Skimming the Cream pricing strategy to earn substantial profit to cover the cost involved in the initial stage of innovativeness and earn price for innovation. Buyers are also ready to pay higher price for the innovative products. When number of producers enter into the same field, uniqueness of innovation will go and competition will increase. Here exporters have to reduce prices for their exportable commodities in order to face competition. In the automobile sector, there is a cut throat competition in the international market. The extent of competition paves the way to cut the prices. If the product is at maturity stage in the Product Life Cycle, exporters have to design their pricing policy carefully so as to compete with a large number of competitors.

Nature of Transactions

Export pricing depends upon the nature of transactions or contracts such as urgent orders, quick delivery of goods, small orders and providing services after sales like repairs, maintenance, supply of spare parts, components etc. Export pricing will vary for urgent order and routine order. Similarly for small orders and bulk orders. Prices may be reduced for bulk orders. Products required after sales services may command higher prices. Nature of export transactions determines export price of the goods and services.

Other Elements of the Export Marketing Mix

Export pricing depends not only on the products sold in the international market but also other elements of marketing mix such as promotion and physical distribution. If a product passes through a long channel of physical distribution, the price of that product will increase due to commission payable to middlemen involved at various channels of distribution. Similarly promotional expenditure will influence over the pricing for the exportable commodities.

Now we discuss External Factors influencing export pricing.

COMPETITION

Competition influences export pricing in the international market. Price prevailing in the international market serves as a reference price to the exporters. The reference price may go up or come down based on the market forces. When competitors come forward to reduce price for their products, exporter should reduce price of his exportable commodities to retain his market share in the international market. When competitors increase their prices, now option is available to exporter whether to increase prices or not, it depends upon his competitiveness in production and marketing. Export prices fluctuate based on the extent of competition prevailed in the international market.

DEMAND

There is a direct relationship between demand of the product and its price. If the price is high, demand will be low. Price is low, demand will be high. Demand determines price in the international market. The level of increase in demand, in relation to changes in prices is different for different products depending upon the price-elasticity of demand for that product.

GOVERNMENT'S POLICY

Export pricing is influenced by the policy of Government. Both Central and State Governments take efforts to increase exports and try to create conducive environment for the growth of export sector. Involvement of the Government at the various stages of exports, influence in pricing of the exportable commodities. Intervention of the Government in export marketing can take any of the following forms;

- Fixation of Floor Prices
- Subsidies

- Government Competition
- Tariffs Barriers
- International Agreements

FIXATION OF FLOOR PRICES

The Government, for certain commodities, will fix a Minimum Export Price. Exporters cannot export such products below the Minimum Export Price. Here export pricing is determined by the policy of the Government. Exporters can sell their exportable items above the Minimum Export Price, Though competition compels the exporters to cut their price, the policy of Minimum. Export Price will not allow to cut export price. Few years back Government fixed Minimum Export Price for Basmati Rice. Later due to increase in competition in the international market, Government freed the basmati rice exporters for Minimum Export Price. They can change any price freely based on their competitiveness. Some Export Promotion Councils also will prescribe the Minimum Export Price and direct their members to sell at that price in the world market. After liberalization the concept of Minimum Export Price has no place in the export marketing scenario.

SUBSIDIES

The Government of India provides subsidies such as, duty drawback, income tax concession, duty exemption on imported items, concessional export finance, duty entitlement passbook etc., for encouraging exporters and increase exports. These subsidies will reduce the costs and contribute to price reduction. Export pricing is influenced by the extent of export subsidies provided by the Government. Subsidies will reduce export prices and export prices will become competitive in the international marker. But the World Trade Organisation insists its members to reduce subsidies related to export trade.

GOVERNMENT COMPETITION

Government Competition is one of the external factors influencing export pricing. The Government may even compete directly in the market to keep stability in prices. Any shortage of sugar or wheat in the open market prices of such commodities will increase. In this situation Government will release such commodities from its buffer stock in order to avoid further increase in prices and keep price stability. The steps taken by the Government to keep price stability in the domestic market influence export pricing also . any short supply in sugar will

increase sugar prices in the international market . if Government releases sugar from its buffer stock, supply wick increase and price will come down.

TARIFF BARRIERS

Tariff barriers influence export pricing. Import Duty, Counterveiling Duty, Special Additional Duty, Anti-Dumping Duty etc., are examples of tariff barriers. If the above duties are levied at a higher level, cost of the imported goods will increase, consequently increase in production cost and selling price. Average import duty in India is more than the duty levied in South-East Asian Countries that results in increase in export price.

INTERNATIONAL AGREEMENTS

International prices of certain commodities are influenced by the international commodity agreements. Bilateral and multilateral contracts are executed to control the prices in the overseas market. Oil and Petroleum Exporting Countries entered into an agreement to increase crude production for the purpose of reducing oil prices. GSP (Globalised System of Preferences) and GSTP (Global System of Trade Preferences) are international agreements. Under these agreements importing countries give concessions in import duties. Decrease in import duty will reduce export prices.

EXCHANGE RATE AND CREDIT

Majority of the export transactions are on credit basis. Export trade is a risky one and it deals with foreign currency. Foreign Exchange Rate is not a constant one, it will ever fluctuate. Exporters have to bear exchange rate risk. Exporters cannot ascertain correctly what will be the exchange rate when payment is actually received from buyers in foreign currency. Inflation is another problem. Exporters will receive payments after the stipulated period. Exporters have to bear the inflationary effect between the period of dispatch and payment received. In addition to exchange rate risk, exporters have to consider inflation risk also while determining their export prices. In some cases, there may be even default by the buyers in releasing payments. This is payment risk or credit or credit risk. Exporters have to take Credit Risk Insurance Policies from the Export Credit Guarantee Corporation of India Ltd., to avoid credit risk. Expenditure (premium and other fee) incurred to take policies will be considered while determining export prices.

MARGINAL COST PRICING IN EXPORT MARKETING

Pricing policies provide a detailed framework within which exporters can take pricing decisions. Exporters are expected to design suitable pricing policies to enable them to deal with different conditions and situations encountered in multinational trade. Exporters have to adopt specific pricing policy suitable to their business conditions.

Marginal Cost Pricing is one of the pricing policies in export marketing. Marginal Cost Pricing Policy concentrates on the relationship between variable costs and revenue. This relationship is expressed as contribution and the contribution should cover fixed costs and profit. Marginal cost statement is expressed as follows:

	Rs.
Selling Price	xxx
Less: Variable Cost	xxx

Contribution	xxx
Less: Fixed Cost	xxx

Profit	xxx

In Marginal Cost Pricing the basic objective is to maximize contribution and in this pricing policy it is assumed that fixed costs remain constant. When we maximize contribution having fixed costs remain constant, profit will be maximized. Contribution maximization refers profit maximization.

In Marginal Cost Pricing it is assumed that fixed cost will not change in proportion to the volume of output and variable cost will change in proportion to volume of output.

[Fixed Costs - Rent, Electricity, Insurance, etc.,]

[Variable Costs – Raw Materials, Labour, Direct Expenses, etc.,]

Under this pricing policy, exporters recover the entire fixed costs from the domestic market by changing higher prices. Fixed costs need not be charged for any export offer received from the foreign market provide there is some

unutilized capacity. Exporters have to charge variable costs only to the export offer. Export price will be low, compared to the domestic price. In export price fixed costs are ignored. In domestic price fixed costs are added. If the exporter is not able to recover the entire fixed costs in the absence of domestic market, he has to recover at a later period when the market conditions become favourable. In Marginal Cost Policy it is assumed that excess capacity or unutilized capacity (for which fixed costs are incurred) is used to meet export offer from the foreign market.

Marginal Cost Policy can be applied when the following conditions are satisfied:

(a) There must be some unused or unutilized capacity in the company,

(b) Additional fixed costs are not required while using the unutilized capacity,

(c) There is no alternative to use the unused or unutilized capacity,

(d) This must be the pricing policy of short term period.

Illustration:

The Everest Snow Company manufacturers and sells direct to consumers 10,000 jars of 'Everest Snow' per month at Rs. 1.25 per jar. The company's normal production capacity is 20,000 jars of snow per month. An analysis of cost for 10,000 jars is as follows:

	Rs.
Direct Material	1,000
Direct Labour	2,475
Power	140
Misc. Supplies	430
Jars	600
Fixed expenses of manufacturing, selling And administration	7,955
Total	12,600

The company has received an offer for the export under a different brand name of 1,20,000 jars of snow at 10,000 jars per month at 75 paise a jar.

Write a short report on the advisability or otherwise of accepting the offer.

Solution

	Present position (capacity 50%)	Proposed offer (capacity 50%)	Total (capacity 100%)
Sales	10,000 units @ Rs. 1.25 per unit Rs. 12,500	10,000 units @ Rs. 0.75 per unit Rs. 7,500	20,000 units Rs. 20,000
Direct Materials	Rs. 1,000	1,000	2,000
Direct Labour	2,475	2,475	4,950
Power	140	140	280
Jars	600	600	1,200
Misc. supplies	430	430	860
	4,645	4,645	9,290
Contribution (Sales-Marginal Cost)	7,855	2,855	10,710
Less: Fixed Cost	7,955	-	7,955
Profit/Loss	(-100)	Rs. 2,855	Rs. 2,755

The proposed offer of 10,000 units per month at a lower price of Rs. 0.75 per unit should be accepted because it will increase the contribution from Rs. 7,855 to Rs. 10,710 and thus convert current loss of Rs. 100 into a profit of Rs. 2,755. Before taking a final decision, however the following points should be considered.

- Cost of exporting the goods to be incurred.

- Whether or not surplus capacity can be utilised for product of some other more profitable products.
- Whether there is any risk or re-export by the foreign customer so that the company will have to face competition with its own product which it exported.

DEMAND BASED PRICING

Prices are determined based on the prevailing demand and supply goods and services in the export market. Global crude oil prices are determined under demand based pricing. Any shortage of a particular commodity in one region of the world market, the demand for such commodity will go up in that region. This becomes an opportunity to another region where such commodity is in surplus. The surplus region will fix very high price based on the exorbitant demand of that commodity in the shortage region. This practice is known as demand based pricing. This type of pricing is temporary in nature.

TRANSFER PRICING

Transfer Pricing Policy is commonly adopted by the multinational corporations. Transfer Pricing means pricing of goods transferred from one unit (subsidiary) of a company (parent company) in one country to another unit (subsidiary) of the same company in another country. Multinational Corporations fix transfer pricing in such a way that in the low taxed countries they earn more profit and in the heavily taxed countries they earn low profit in order to avoid tax liabilities and maximize earnings.

Apte P.G., in his book 'International Dinancial Management' has defined Transfer Pricing as, "a device used by Multinational Corporations to price intracorporate exchange of goods and services in a manner designed to maximize overall after-tax profits. It allows the parent company to control the amount and direction of intracorporate transfer towards the attainment of a number of vital but often conflicting objectives". He has further given the objectives of transfer pricing. They are,

i) positioning of funds in locations that will suit corporate working capital policies,

ii) reducing exchange exposure and circumventing exchange controls, restrictions so that transfers from affiliates to the parent can be maximized and

iii) reducing customs duty payments and overcoming quota restrictions on imports.

The tables given below explain the concept of arm's length pricing and transfer pricing.

Table 1 Shifting Profit and Transfer Pricing

Details	"Arms Length" Price		Transfer Price	
	Country A	Country B	Country A	Counıry B
Sales	$ 10000 exports	$ 12000	$ 12000 exports	$ 12000
Cost of sales	8000	10000	8000	12000
Profit	2000	2000	4000	nil
Tax rate	800	1000	1600	nil
A 40% B 50%	---------	---------	--------	---------
Net Profit	1200	1000	2400	Nil
	---------	---------	--------	--------

Table 2 Transfer Pricing Through Tax Heavens

Details	Country A Subsidiary	Country B Subsidiary (Tax Heaven)	Country C Subsidiary
Sales	$ 8000	$ 12000 exports	$ 12000
Cost of sales	8000	8000	12000
Profit	-	-	-
Tax rate	-	-	-
(A 40%, B0%, C50%)			
Net Profit	0	4000	0

[Source : 'International Business', Rugmann and Hodgetts, p.388]

Arm's length price is the price paid by the buyer in the perfect market. Table 1 shows that subsidiary in Country A earns profit Rs. 4000; subsidiary in Country B Rs. 2000. Profit after tax in a subsidiary in Country A Rs. 1200, Country B Rs. 1000. Total Rs. 2200.

Under transfer pricing, subsidiary in Country A sell goods at Rs. 12000 and earns profit Rs. 4000.

Profit after tax Rs. 2,400. Subsidiary in Country B earns Nil. Because selling price is equal to cost price. Price under transfer pricing is (Rs. 2400) is more than the arm's length pricing.

The objective of transfer pricing is to maximize profit in the low tax rate Country and minimize profit in the high tax rate country. Table 2 reveals transfer pricing mechanism, 'where tax is low, there is high profit', 'where tax rate is high, there is low profit or profit may be zero'. Total net profit shown by Table 2 is more than the Table 1. Transfer pricing through Tax Heavens is the reason for it.

PRICING STRATEGIES

There are two pricing strategies for a new product. They are, (i) Market Skimming Pricing and (ii) Market Penetration Pricing. Market Skimming Pricing refers fixing a higher price at the time of introducing the product in order to recover the heavy investment made in production and other facilities as early as possible. Market Penetration Pricing refers fixing a low price at the time of introducing product in order to penetrate in the market. Market Skimming Pricing is applied for newly introduced electronic products. Market penetration Pricing is applied for fast moving consumer goods.

Philip Kotler defines Market Skimming Pricing as, "setting a higher price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales". Market Penetration Pricing is defined as, "setting a low price for a new product in order to attract a large number of buyers and a large market share".

Market Skimming Pricing is appropriate when the competition is very low in the market and the market must be unique in fulfilling the requirements of consumers. The higher prices must be justified by product quality and

consumer value and image. Computers, electronic watches, calculators, television were sold under market skimming pricing.

Market Penetration Pricing is used to penetrate the market quickly and to attract a large number of consumers as early as possible and gain a large market share. Increase in sales volume will help the companies to reduce prices further. It will help to increase market share further. If the market is price sensitive, the prices must be low to increase sales volume. Low price strategy should help the companies to face competition in the market.

William J.Stanton has highlighted the conditions appropriate for Market Skimming Pricing and Market Penetration Pricing. They are given below:

Conditions Suitable for Market Skimming Pricing

(1) The new product has distinctive features strongly desired by consumers,

(2) Demand is fairly inelastic, most likely the case in the early stages of product's life cycle. Under this condition, low prices are unlikely to produce greater total revenues,

(3) The new product is protected from competition through one or more entry barriers such as a parent.

Conditions Suitable for Market Penetration Pricing

(1) A large mass market exists for the product,

(2) Demand is highly elastic, typically in the later stages of the life cycle for a product category,

(3) Substantial reductions in unit costs can be achieved through large scale operations,

(4) Fierce competition already exists in the market for this product or can be expected to materialize soon after the product is introduced.

(Source: William J.Stanton, Fundamentals of Marketing, p.335).

DUMPING

GATT's 1979 antidumping code defined dumping as, "the sale of an imported product at a price lower than that normally charged in a domestic market or country of origin". T.A.S. Balagopal in his book, Export

Management has explained that, "oftentimes, exporters from developed countries, in their eagerness to capture a large market for a particular product, arrange to sell it at a very low price, lower than the price at which it is sold in the country of origin. This attempt at introducing a product in a large quantity into a market at a price which is even lower than its cost price is known as 'dumping'. Anti-dumping duty is levied to counteract dumping.

In International trade dumping occurs when an exporting country dumps or sells goods in the importing country at a price lower than their costs in the exporting country.

ANTI-DUMPING MEASURES

According to GATT 1994 member nations have a right to impose anti-dumping measures under two conditions (i) a product is supplied at an export price which is below value i.e. a price which is lower than the domestic cost in the exporting country and (ii) the dumped imports are shown to cause serious damage to a domestic industry located in the importing country.

Anti-dumping measures should expire after five years.

Anti-dumping measures are not allowed to be applied when the price of dumped imports is lower by 2 percent or less of the normal value or when the quantity of imports dumped is negligible, i.e. 3 percent or less of total imports of the product imported by a country.

COUNTER TRADE

It is goods for goods. Export is paid in the form of goods. Similarly payment for import is made in the form of goods. Francis Cherunilam in his book International Business has defined counter trade as, a form of international trade in which certain export and import transactions are directly linked with each other and in which import of goods are paid for by export of goods, instead of money payments? He further highlights that counter trade refers to a variety of unconventional international trade practices which links exchange of goods directly or indirectly in an attempt to dispense with currency transactions.

Warren J.Keegan in his book Global Marketing Management has defined counter trade as, "an arrangement in which firms both sell to and buy from their customers". The US International Trade Commission explains

counter trade that Western products or technology are paid for in full or in part with products produced in the importing countries.

T.A.S. Balagopal in his book Export Management has defined counter trade as, "a transaction in which the proceeds of exports will be realized in kind fully, or partially in cash and kind and may involve two or more countries in one transaction". It is a trade management that contains requirements to purchase products as a condition of sale. Counter trade is not a traditional or conventional form of trade. Money does not serve as a medium of exchange of goods and services.

There are various forms of counter trade. They are given below:

a) Barter
b) Buy back
c) Compensation trading
d) Counter purchase
e) Switch trade

Barter

It refers exchange of goods and services of equal value between exporter and importer. Warren J.Keegan has expressed that simple barter is a direct exchange of goods or services between two parties. Francis Cherunilam has explained that barter is a direct exchange of goods and services of equal value with no money and no third party involved. It is the oldest form of international trade.

Buy Back

It is buying back transaction. It serves as a marketing tool in domestic market also. Under the buy back agreement, one company may provide entire production facilities to a foreign company and in turn agrees to buy the goods manufactured by foreign company. Francis has explained that under the buy back agreement, 'the supplier of plant, equipment of technology agrees to buy goods produced with that equipment, plant or technology'. T.M.S. Balagopal has explained buy back in a different way. He has stated that 14 exporters from a developed country who exports manufactured products agrees to buy back to the extent of his export or more, the same product to be produced with his help from another developing country.

Compensation Trading

It is one of the forms of counter trade. It is also called buyback. It involves two separate parallel contracts. Warren J.Keegan less stated that 'in one contract supplier agrees to build a plant or provide production facilities, parents or licenses; or technical, managerial, or distribution expertise for a hard currency down payment at the time of delivery. In the other contract, the supplier company agrees top take payment in the form of the plant's output equal to its investment (minus interest) for a period of as many as 20 years. Essentially, the transactions rests on the willingness of each firm to be both a buyer and a seller'. Francis has stated that, 'Under compensation trading, the seller receives a part of the payment in cash and the rest in products'.

Counter Purchase

It is called as parallel trading or parallel barter two separate contracts are signed in counter purchase transaction. In one contract, the supplier agrees to sell products for a cash settlement (the original sales contract); in the other contract, the supplier agrees to purchase and market unrelated products from the buyer (a separate parallel contract) (Warren J.Keegan). Francis Cherunilam has explained that under counter purchase agreement, the seller receives the full payment in cash but agrees to spend on equivalent amount of money in that counter within a specified period.

Switch Trade

It is a triangular trade. Switch trading can be applied to barter or counter trade. Warren J.Keegan has expressed that under the switch trading agreement, a professional switch trader, switch trading house, or bank steps in to a simple barter arrangement, clearing agreement, or a counter trade agreement when one of the parties is not willing to accept all the goods or the clearing credits received in a transaction. The switching mechanism provides a secondary market for counter rated or bartered goods and credits and reduces the inflexibilities inherent in barter and counter trade. In switch trading a third party is permitted in the counter trade agreement when any of the contracted parties fails to fulfil its contracted obligation. T.A.S. Balagopal has rightly pointed out that 'in switch trading a third party is brought into the counter trade agreement to accept the goods that the original foreign company is unable to use or market itself'. It is also known as a three-way counter purchase deal.

TYPES OF INTERNATIONAL TRANSACTIONS*

Conventional	Barter	Counter Trade
Exporting	Simple	Counter Purchase
Importing	Closed-end Barter	Offset
Licensing	Clearing Around	Compensation Trading
Management	Contract Barter	Cooperation Agreement
Overseas Sales Office	Indirect Barter	Switch Trading or
Overseas Production+		marketing subsidiary +
Assembly Operations		Switch trading
Complete Manufacturing		
operations		

* It is possible that any of the forms given can be combined, for example, licensing with a cooperation agreement joined to classical barter.

+ Ownership and control may be shared in a joint venture or be wholly owned by the investing firm.

Source: Warren J.Keegan, "Global Marketing Management" Fifth Edition, P.604.

PRICE QUOTATION

Reference to a specific INCOTERM in a purchase contract is a shortened way of affirming the respective responsibility of the two parties. A term defines the responsibility of each party for arranging for the movement of the goods, the appropriation of specific costs associated with this movement, and the cut-off point where risk of damage or loss is transferred from the buyer to the seller. A reference to a specific INCOTERM in a purchase contract serves two purposes. Firstly, it obviates the need for listing all the obligations

of the two parties of the contract and the incidence of associated costs. Secondly, it removes the possibility that the parties to the contract may interpret the terms differently.

The six INCOTERMS more closely associated with deep sea maritime transportation are:

FAS (Free Alongside Ship) FOB (Free on Board)

CFR (Cost and Freight) CIF (Cost Insurance and Freight)

DES (Delivered Ex Ship) DEQ (Delivered Ex Quay)

The other terms, while not applicable to deep sea transportation are more appropriate for short sea, road, rail and multi-modal transportation.

EXW (Ex Works) CPT (Carriage Paid to)

CIP (Carriage & Insurance Paid to) DAF (Delivered at Frontier)

DDU (Delivered Duty Unpaid) DDP (Delivered Duty Paid)

The terms FOB, CFR (C&F) and CIF are the ones which are more commonly used by importers in developing countries. With growth in containerization of cargo for deep sea transportation, another 1990 term, FCA (Free Carrier), is also likely to be used increasingly.

BUYER'S RESPONSIBILITY (/)

Nature of obligation/incidence of cost/passing of risk	CIF	CFR	FOB	FCA
1. Obtain at his own risk and expense any export license and carry out all export customs formalities in the supplier's country	-	-	-	-
2. Contract at his own expense for the carriage of goods from the name;				
a) Place in supplier's country	-	-	-	/
b) Port of shipment	-	-	/	-

3. Take delivery of goods: a) For FCLs when the loaded container is taken over by the sea carrier	-	-	-	/
b) For LCL's when the container has been carried to an operator of a transport terminal acting on behalf of the carrier and has entered his premises	-	-	-	/
c) When placed on board the ship on the date or within the period stipulated in the purchase contract	/	/	/	-
4. Bear all risks of loss or damage of goods a) From the time the delivery of goods has been taken, in accordance with 3(a)	-	-	-	-
b) From the time the goods have passed the ship's rail. [NB. In an FOB contract, if the buyer fails to nominate a vessel in time to arrive in accordance with the contract, the risk will pass to the buyer on the day he was supposed to take delivery and the supplier has assigned the goods to be contract]	-	-	/	-
5. Arrange for maritime transportation and bear freight costs	-	-	/	/
6. At his own cost, arrange insurance of goods once the goods have been delivered in accordance with 3, above [see also 4 above]	-	-	/	/
7. At his own risk and expense, obtain any import licence or other official authorization and carry out all customs formalities for importation into his country	/	/	/	/

8. Pay taxes, duties and other official charges payable upon importation of goods	/	/	/	/

TERMS OF SHIPMENT

Normally "terms of shipment" refers to the use of C.I.F, C&F, F.O.B., F.A.S. "Ex-works" and "Door-to-door". They are explained below:

C.I.F. : When goods are shipped C.I.F. to a named port of destination the seller must.

"Contract on usual terms at his own expense for the carriage of goods to the agreed port of destination by the usual route, in a sea going vessel (not being a Bailign vessel) of the type normally used for the transport of goods of the contract description and pay freight charges and any charges for unloading at the port of discharge which may be levied by regular shipping lines at the time and port of shipment".

"Load the goods at his own expenses on board the vessel at the poor of shipment and at the date or within the period fixed or, if neither date nor time have been stipulated, within a reasonable time, and notify the buyer without delay, that the goods have been loaded on board the vessel".

"Procure, at his own cost and in a transferable for a policy of marine insurance against the risk of the carriage involved in the contract. The insurance shall be contracted with underwriters or insurance companies of good, repute on FPA terms and shall cover the C.I.F. price plus 10 per cent. The insurance shall be provided in the currency of the contract, if procurable".

"At his own expense furnish to the buyer without delay a clean negotiable bill of lading for the agreed port of destination, as well as the invoice policy not be available at the time the documents are tendered, a certificate of insurance issued under the authority of the underwriters and conveying to the bearer the same rights as if he were in possession of the policy and reproducing the essential provision thereof".

"Provide at his own expense the customary packing of the goods, unless, it is the custom of the trade to ship the goods unpacked".

"Pay the costs of any checking operations (such as checking quality, measuring, weighing, counting) which shall be necessary for the purpose of loading the goods".

"Pay and dues and taxes incurred in respect of the goods upto time to their loading, including any taxes, fees or charges, levied because of exportation, as well as the costs of any formalities which he shall have to fulfil in order to load the goods on board.

C & F : When goods are shipped C & F to a named port of destination, the seller must take all the action listed above, except that relating to insurance, which is the responsibility of the purchaser.

F.O.B : When goods are shipped F.O.B from a named port of shipment, the seller must:

"Deliver the goods on board the vessel named by the buyer at the named port of shipment in the manner customary at the port, at the date or within the period stipulated, and notify the buyer, without delay that the goods have been delivered on board the vessel".

"Provide at his own expense the customary packing of the goods, unless it :s the custom of the trade to ship the goods unpacked".

"Pay the cost of any checking operations (such as checking quality, measuring, weighing, counting) which shall be necessary for the purpose of delivering the goods".

"Provide at his own expenses the customary clean document in proof of delivery of the goods on board the named vessel".

It is the responsibility of the buyer in the case of F.O.B shipment to:

"At his own expense, charter a vessel or reserve the necessary space on board, a vessel and give the seller due notice of the name, loading berth and delivery dates to the vessel".

"Bear all costs and risks of the goods from the time when they shall have effectively passed the ship's rail at the named port of shipment, and pay the price as provided in the contract".

"Pay any costs and charges for obtaining a bill of lading".

F.A.S. : When goods are shipped F.A.S. from a named part of shipment the seller must:

"Deliver the goods alongside the vessel at the loading berth named by the buyer, at the named port of shipments in the manner customary at the port, at the date or within the period stipulated, and notify the buyer, without delay, that the goods have been delivered alongside the vessel".

"…. bear all costs and risks of the goods until such time as they shall have been effectively delivered alongside the vessel at the named port of shipment, including the costs of any formalities which he shall have to fulfil in order to deliver the goods alongside the vessel".

"Provide at his own expense the customary packing of the goods, unless it is the custom of the trade to skip the goods unpacked".

"Provide at his own expense the customary clear document in proof of delivery of the goods alongside the named vessel".

"The responsibility of the buyer in an F.A.S. shipment is two fold. Give the seller due notice of the name, loading berth of and delivery dates to the vessel".

"Bear all the charges and risks of the goods from the time when they shall have been effectively delivered the vessel at the named port of shipment, at the date or within the period stipulated, and pay the price as provided in the contract".

Ex Works: When goods are shipped ex-works it is the duty of the seller to place the goods at the disposal of the buyer at the time and place specified in the contract (usually the premises of the seller) and to bear all the costs involved in doing so.

It is the responsibility of the buyer to take delivery of the buyer to take delivery of the goods from the agreed and to arrange and bear the costs of transport and insurance.

Door-to-door: Door-to-door transport is not covered by INCO terms. In a door-to-door operation the transport contract covers all stage and costs (excepting custom dues) of transport between the point of sale and the point of purchase of the goods, that is usually from the premises of the seller to those of the buyer door-to-door is not a term in the same category as those described above,

since the use of the term does not deal with and so does not fix the division of responsibility for arranging and paying for the transport of the goods concerned. The term should be noted because of its increasing importance to the trade of land-locked countries.

FINANCING AND PAYMENT

Finance is the basic requirement of all business activities. The need for export financing arises as soon as the exporter receives export order. Export financing transactions come to an end when the goods are loaded on the vessel and export proceeds received from importer. Exporters should plan in advance in arranging export finance from the beginning and to the end of the export trade. Export finance is a risky one. So bankers take strenuous efforts to judge exportability of the exporter and his past track records in export trade, for sanctioning export finance. Export financing is a complicated lending transaction because it involves traders of two countries and foreign exchange transactions. In export trade, buyers and sellers are far away and sellers do not know the socio, economic and cultural environment of the end users of their products. Exporters have to exercise greater care in allowing credit to importers in the overseas market. They should be very careful regarding terms of payment. Export document procedures should be duly fulfilled.

Competition in world markets, both for consumer and capital goods, is becoming increasingly intensified and, in this situation, the bargaining power has shifted from the seller to the buyer, who tends to dictate terms with regard to price, quality, and delivery schedules and above all, insists on appropriate credit terms. The availability of an adequate supply of credit at reasonable rate, therefore, greatly facilitates the task of the exporter and serves as an incentive to augment his export efforts. The depleting foreign exchange position in many developing countries makes it imperative for importers to ask for credits of varying duration, and the credit terms offered often influence the buyer's choice of supplier and thus the source of supply.

According to David Kinley, "By credit we mean the power which one person has to induce another to put economic goods at his disposal for a time on promise of future payment. Credit is thus an attribute of power of the borrower". Thus the main elements of credit are: The element of trust, the element of capital and assets, the element of amount of credit and the element of duration of credit.

EXPORT FINANCE

Finance is the life blood of an business activity. Finance is the most significant aspect in export trade. Once the export order is received, production of exportable commodities should take in time. It requires adequate finance for procuring the needed raw materials and other components. In some cases, materials are to be imported from foreign countries. It requires foreign currency. Unless the financial requirements for exports are fulfilled, export order cannot be met in the scheduled time. Further, getting payment for the export cargo will take sometime. Adequate credit facilities are to be extended to the exporters till they receive export proceeds from foreign countries. Realizing the significance of export finance and to encourage exports, the Reserve Bank of India has come forward to extend export finance to the Indian exporters at concessional rate.

There are two types of export finance. They are,

i) pre-shipment credit (or) packing credit and

ii) post-shipment credit

The Reserve Bank of India has defined pre-shipment credit as, "any loan to an exporter for financing the purchase, processing, manufacturing or packing of goods".

Pre-shipment credit is given by the commercial banks for purchasing and processing of materials, manufacturing of exportable commodities and packing of such commodities.

Pre-shipment Credit is granted by the commercial banks for a period of 180 days from the date of sanctioning the credit. Further extension will be given for a period of 90 days, provided adequate reasons are given by the exporters for such extension.

Interest rate for the Pre-shipment Credit is lower than the normal rate of interest. Concessional interest rate is charged for pre-shipment credit in order to maintain price competitiveness in the overseas market and to reduce interest burden to the exporters.

Commercial banks charge a rate of 11 percent on pre-shipment credit upto 180 days. Pre-shipment credit between 180 to 270 days will cost exporters 12 to 14 percent. The interest rate for post-shipment credit on usance bills beyond 90 days is 11 percent. The concessional rate of interest is one of the

important incentives provided by the Government for export trade. In order to reduce the interest rate for export credit, the RBI has reduced the export refinance rate from 9% to 7%. Exporters should fulfil all the procedures prescribed by the commercial banks for export credit. Exporters should submit export order or letter of credit along with the application form for pre-shipment credit. Exporters should give an undertaking that the advance will be used exclusively for the purposes of procuring/manufacturing/shipping of commodities meant for export as given in Export Order or Letter of Credit. Banks will sanction the pre-shipment credit after verifying all the documents required for it. The credit worthiness of the exporters, their capacity to produce exportable commodities and the reputation of the organization are also assessed by the banks before sanctioning pre-shipment credit. Exporters are advised to get appropriate insurance policy for export credit from the Export Credit Guarantee Corporation (ECGC). Exporters should get Packing Credit Guarantee also from the ECGC. Insurance Policy and guarantee from the ECGC are insisted by the commercial banks for sanctioning pre-shipment credit. Exporters can avail pre-shipment credit in foreign currency also.

Post-shipment credit refers to any loan or any other credit provided by any institution to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realization of export proceeds and includes any loan or advance granted to an exporter, on consideration of or on the security of any drawback or any cash receivable by way of incentives from the Government. Dr. Varma and Agarwal, in their book 'Foreign Trade Management' have specified the need for export finance. It is shown below:

- procuring raw materials and components to process and produce exportable commodities,
- refinancing facilities so as to get the proceeds of bills after the shipment,
- making availability of funds until the export benefits are realized and
- refinancing facilities for long term credits offered for the export of products.

FINANCE AND EXPORT FINANCE

The Reserve Bank of India Export-Import Bank of India Development Finance Institutions and Commercial Banks both private and public sector banks are actively involved in providing export finance. The Reserve Bank of

India regulates interest rate for export finance. The Export Credit and Guarantee Corporation of India is also involved in the process of export finance transactions. Commercial Banks provide two types of export finance. They are Pre-shipment Finance and Post-shipment Finance. Commercial Banks are directed by the Reserve Bank of India to provide 12% of their net bank credit for export finance. Export finance is needed to exporters to identify emerging export market and to develop exportable products, establish production infrastructure and facilities, procure raw materials and other assemblies for producing export cargo, undertake export promotion activities and fulfil financial requirements during the period between shipment of goods and the actual receipt of payment.

Data regarding Export Credit (Outstanding) furnished by the Reserve Bank of India for the period 1990 to 1997 are given below:

Export Credit (Outstanding) for the period 1990 to 1997

(Rs. in Crores)

Sl. No.	*Year*	*Export Credit (Rs.)*
1.	1990	8245
2.	1991	9186
3.	1992	10261
4.	1995	25051
5.	1996	29570
6.	1997	28588

RBI Initiative for Export Finance

While the bank rate has come down to 7 per cent, export credit remains comparatively costlier at 10 per cent in the case of both pre-shipment as well as post-shipment credit. The Federation of Indian Export Organisation (FIEO) President K.K.Jain met RBI Governor Dr. Bimal Jalan to seek reduction in export credit and also waiver of bank processing charges in the cases of exporters. Industry sources said the apex bank's chief has given positive indications regarding reduction in export credit, without going into details of the quantum of reduction.

Interest charged on export credit stood at 11 per cent as of April 1998 while the bank rate stood at 9 per cent. Subsequently, bank rate came down first to 8 per cent and then to 7 per cent. Interest charged on export credit came down to 10 per cent with effect from April 1, 1999 but has been staying at the same level despite a two percentage point reduction in bank rate since then.

Exporters have also pointed out that rival exporters based in other countries enjoy cheaper export credit and this blunts the competitiveness of the Indian industry. China, for example, charges only 3.20 per cent interest on export credit while Japan offers credit to exporters at 1.37 per cent. Indonesia charges 2.15 per cent interest on export credit while Singapore and Taiwan charge, respectively, 5.5 per cent and 4.95 per cent. (The Economic Times, April 19, 2001).

The FIEO president also informed the RBI chief that service charges imposed by banks stand at 13.97 per cent and this is in addition to the cost of export credit which stands at 10 per cent. Export credit outstanding increased from Rs. 38,885 crore in 1998-99 to Rs. 44,872 crore in 1999-2000 in line with the growth in the country's exports. The export community accounted for 10.7 per cent of the total net bank credit outstandings in 1999-2000 as compared to 11 per cent in 1998-99.

Exporters have been demanding that the government should provide cheaper credit so that Indian exports could became internationally competitive. However, officials feel that any subsidy on export credit may not be in line with norms laid out by the World Trade Organisation (WTO).

The central bank slashed export credit rates by one percentage point across the board, raising hopes of a further reduction in key interest rates. Expectation of a cut in the Bank Rate pushed down forward premium on the dollar immediately after the export rate cut was announced

In addition, the RBI, in consultation with the government, announced a special financial package for large value exports of six products – pharmaceuticals, agro chemicals, transport equipment, cement, iron and steel and electrical machinery, which are internationally competitive and have high value addition.

Manufacturer exporters in these products with export contracts of Rs. 100 crore and above in one year will be eligible for the special financial package. This will be valid for one year from October 1, 2001.

Exporters covered under the special financial package will be extended credit for an extended period upto 365 days at the pre-shipment as well as post-shipment stage. The rates of interest which are now decided by banks on a commercial basis upto a maximum of prime lending rate plus 4 percentage points, has now been capped at PLR + 0.5 per cent for the extended period of pre-shipment and post-shipment credit. This measure, applicable for large value exports is over and above the reduction is ceiling rates on export credit.

Exporters will also be allowed to import raw material on credit terms for periods beyond 180 days at one percentage point above the prevailing Libor Rate. Exim Bank has been permitted to extend buyers credit of Rs. 200 crore without reference to RBI. Similar permission will also be granted to the participating banks.

Importance of Export Finance

The importance of export finance are presented below:

(1) It enhances exports in the competitive market: Export finance paves the way to increase exports. Increasing exports are essential for a developing as well as developed country. But export market is operating in the competitive environment. Hence, the government or banking institutions usually extend concessional credit to its exporters, who are in need of such credits to fulfil their export obligations.

(2) Technological Development: The degree of technical know-how is very low in less developed and developing countries. So, less developed countries hire the services from other developed countries but their charges are very rich. Huge finance is needed to the less developed countries to repay service charges. Export finance is needed to pay such charges.

(3) Easier terms and conditions: If the credit is available on easier terms, exporters will be in a position to sell the goods to the importer on easier payment terms.

(4) It is a source for the economic development of nations: Developing countries are having deficiency of foreign exchange reserve to cope with their development needs. Exporters obtain long-term export credit from specialized financial institutions to meet import commitments. Thus, export finance does not create pressure over foreign exchange position and help for economic development.

(5) Balanced Growth: The deficiency of finance is one of the main constraints for economic development of developing countries. In this context, export finance contributes to economic development and helps to establish balanced industrial development of different nations.

(6) It reduces adverse balance of payments: Adverse balance of payment creates serious consequences on development activities of any nation. With sufficient export finance, the manufacturers of a country may produce more and export more to different markets in the world. Increase in export earnings will help to solve balance of payment crisis.

(7) It helps for sales promotion: The various sales promotion programme like advertising, publicity, trade fairs and exhibitions, etc., need adequate finance. Export finance can be used for undertaking aggressive export promotional measures to increase export market.

(8) It enhances customer services: Export finance is needed for product adaptation, improvement of quality, adding new uses to the product and to use an appropriate pricing method to increase export performance.

(9) Export finance fulfils short, medium and long-term financial needs: Exporters need short-term, medium-term and long-term finance to meet their production and distribution requirements. Banks provide short-term credit extending to a period upto one year, and other terms of financial needs are met from other national and international financial institutions. Long-term credit helps to bring modernization and adoption of latest technology.

Methods and Sources of Export Finance

The main methods of export finance can be grouped into two. They are:

(1) Short-term Finance, and

(2) Medium and Long-term Finance

Short-term Finance

Short-term finance facility is extended for a period from 30 days to 180 days. It is granted by the commercial banks for import-export trade in consumer goods and industrial goods like small machines, commercial vehicles, spare parts, etc.

The main purposes of short-term finance to exporters are presented below:

(1) procuring raw materials,

(2) manufacturing and processing or making advances to other producers from whom the exportable goods are ordered,

(3) meeting expenses of packing, handling, internal transport and to meet insurance and warehousing charges, and

(4) shipment and other related needs.

The requirements of short-term finance to the importer are as follows:

(1) For payment of advance to the exporter,

(2) For meeting the shipping charges, insurance etc.

(3) To pay duty in obtaining import licence etc.

Pre-shipment Finance

Pre-shipment finance may be defined as any loan or advance granted or any other credit provided, by a financial institution to an exporter for financing the purchase, processing and packing of goods, on the basis of letters of credit opened in his favour by an overseas importer of the goods, or upon a confirmed and irrevocable order for the export of the goods, or any other evidence of the placement of an order with the exporter. The maximum period for which any loan or advance may be granted or any other credit facility may be provided does not usually exceed 180 days, or such extended period as the central bank of the exporting country may allow. Normally, there are two ways open to an exporter to obtain licence at the pre-shipment stage. They are anticipatory letters of credit and packing credits.

Preshipment Finance in Foreign Currency

Exporters can get preshipment finance in foreign currency from commercial banks. Exporters can use the foreign currency for the purpose of importing necessary raw materials and other inputs for manufacturing exportable commodities. Preshipment finance in foreign currency is made available to the exporters who have a firm export order or a letter of credit. This type of financial management is provided by banks for a maximum period of 180 days. Preshipment finance in foreign currency can be obtained from any Authorised Dealers in Foreign Exchange.

Commercial Banks provide preshipment finance to the exporters against the security of, (i) Pledge, (ii) Hypothecation, (iii) Export Trust Receipt, (iv) Incentives Receivables, (v) Red Clause Letter of Credit and (vi) Back-to-Back Letter of Credit.

Banks will insist exporters to take appropriate export credit, insurance policy from the Export Credit Guarantee Corporation of India Limited, for providing preshipment finance.

The following documents are required for getting preshipment finance from banks:

Confirmed Export Order, ii) Letter of Credit, iii) Policy of Export Credit Guarantee Corporation, iv) Copy of Audited Financial Statements and Income Tax Assessment, v) Copy of the CNX Exporters' Code Number and vi) Copy of the Registration-cum-Membership issued by an Export Promotion Council.

Anticipatory Letters of Credit

Anticipatory letters of credit is also known as red clause letters of credit. It is a normal letter of credit, which contains a special clause (usually typed in red) authorizing the negotiating or confirming bank.

The Red Clause of Letters of Credit is generally opened to enable the exporter to procure material and execute the foreign buyer's order without looking up too much of his own funds. The advance made to the exporter is of course at the risk of the opening bank and is restricted to the amount authorized in the red clause letter of credit. The bank must ensure that there are proper instructions on the red clause letter of credit as regards reimbursement of the amount to be advanced to the exporter. Generally, the reimbursement of

the pre-shipment advance under a red clause letter of credit is provided by the negotiation of a clean draft under the letter of credit, in which case the invoice submitted at the time of the negotiation of the documents should show a deduction to the extent of the drawings already made. Before advancing against a red clause letter of credit, it is advisable to ensure that the bank will be in a position to negotiate the bills drawn under the letter of credit.

Packing Credit

Packing credit is essentially a loan or advance granted by a bank to an exporter to assist him in buying, processing, packing and shipping the goods. These advances are generally made by commercial banks in different forms.

Forms of Advances

The main forms of financing the exports at the pre-shipment stage are:

(1) loans,

(2) overdrafts, and

(3) cash credits

Loans: Under loan account, the entire amount is paid to the borrower either in cash or by transfer to his current account at one time. Generally, its repayment is stipulated by instalments. The main advantage of the loan system is that the loans are for predetermined short periods and have a build-in-programme of repayment. They are automatically reviewed by banks on the due dates. The main disadvantage of the system is its inflexibility and the need for borrowers to negotiate fresh loans every time. Verification of the ultimate use of funds is difficult in this system compared to the cash credit system.

Overdrafts: An overdraft is a fluctuating account and its balance is sometimes in credit and sometimes in debit. Cheques drawn on a current account are normally honoured only if the balance is in credit, but the overdraft arrangement enables a customer to draw over and above his own balance up to the extent of the limit stipulated. Drawings and repayments are permitted as needed by the customer, provided the total amount overdrawn does not exceed the agreed limit.

Cash Credits: Cash credits are ordinarily allowed against pledge or hypothecation of goods against personal security. If there is a good turnover in

the account and quick movements of goods, a cash credit limit is renewed periodically. The cash credit system has the advantage of flexibility. It enables the borrowers to route all their cash earnings through the account and keep drawings at the minimum level, thereby minimizing interest charges. The main disadvantage of the system is that the banks may find it difficult to ensure the end-use of funds due to its emphasis on the security aspect and the roll-over nature of credits.

OPERATIONAL MECHANISMS FOR PRE-SHIPMENT FINANCING

Pre-shipment finance is essentially a working capital finance made available for the specific purpose of manufacturing of goods meant for export. All costs prior to shipment would be eligible for financing under packing credits. The following points will usually be examined by the banks when considering proposals for export packing credits:

1. The capacity of the exporter to execute the orders within the stipulated delivery schedules.
2. The ability of the exporter to absorb export business loss.
3. Whether the quantum of finance asked for is on equal rate with the company's turnover.
4. The degree of arrangements made for the import of raw materials and its component.
5. The spread of risk.
6. Whether the exports are covered by irrevocable letters of credit.
7. The status of the issuing banks.
8. The status of the buyer's country in terms of economic and political conditions.
9. The availability of security such as export credit insurance cover.
10. Covering of exchange risk.

Post-Shipment Finance

Post-shipment finance is defined as any loan or advance granted or any other credit provided by an institution to an exporter of goods from India from the date of extending the credit after shipment of goods to the date of realization of export proceeds, in consideration or on the security of any drawback or any cash payment by way of incentive from the Market Development Assistance (MDA) or any other relevant source. Thus, post-shipment finance is given against:

1. Export bills drawn on foreign buyers, and
2. Export cash incentives to be received by the exporter.

Negotiation of Bills

Bills of Exchange drawn either in Indian rupees or foreign currencies under a letter of credit or otherwise are offered to banks for negotiation such as sale or discount. Normally, the bills drawn against a letter of credit are accepted without any difficulty due to the fact that banks do not have any risk. Besides, the negotiation of bills depends upon the following factors:

1. Credit rating: Status report on both drawee and drawer in terms of both financial and moral standing is the prime consideration in accepting a bill for negotiation.
2. Product characteristics: The nature, quality and price of the export product also influence the banker's decision in accepting a bill. For instance, banks will accept the bill if the product is of international standard and quality and offered at most competitive rates and has good demand abroad.
3. Documentary requirements: In case of documentary bill, the banks will examine the documents like bill of lading and invoice on various aspects such as whether the bill is supported by all the documents mentioned in the letter of credit.
4. Credit limit of drawer: if the amount does not generally exceed the credit limit of the drawer a fixed by the bank, then the bills are accepted.

5. Rate of Negotiation: The rate of negotiation mainly depends upon the currency in which the bill is drawn, the banking organization in the country concerned, period of maturity, etc.

The banker treats the negotiation of the bill as an advance of rupees for a period from the date of negotiation until the final remittance is received. The banks consider the following factors in calculating such a rate:

(1) Prevailing rate of interest,

(2) The period which the bill has to run before maturity,

(3) Stamp duty to which the bill is liable in the foreign centre,

(4) Charges for collection which the foreign banks may make,

(5) An appropriate allowance for possible delays of mails or other contingencies and the banker's own profit over the transaction.

6. Collection of bills: The 'Sight' Documents against payment as well as 'Usance' bills Documents against Acceptance can be offered to the banks on collection basis. Banks send such bills to their foreign branch for collection of payment. Banks may give advance against such bills and it may take the following forms:

(1) Cent Percent advance: Bank may discount the bill of exchange by advancing to the drawer the full face value of the bills if a rupee bill of exchange has been drawn and received by the bank for discount with instructions from the drawer that in addition to face amount of the bill, the drawer is to pay interest, collection charges and foreign bill stamps.

(2) Percentage of advance: The usual procedure is that the bank will advance upto a certain percentage of the amount of each bill of exchange depending upon the integrity and financial standing of the drawer. Besides, the collection charges are made on the full value of the bill.

(3) Percentage advance against pending collections: Under this system the drawing limit is calculated as a percentage times of outstanding amount and the customer can draw, if he needs, upon the amount indicated by the drawing limit.

SOURCES OF SHORT-TERM EXPORT FINANCE

The main sources of short-term export finances are presented below:

Foreign Trade Financed by Exporter

This is one of the sources of export credit but very few exporters will employ their capital to finance for export. Exporter will employ this method when he is financially sound and he may consider to supply goods to the importer on the basis of credit. In this situation, exporter will provide credit to the importer on the following terms:

1) ***Open Current Account:*** Generally, this method will operate between the exporter and importer who have long-term dealings. Exporter sends the letter of rights to the importer. Importer makes payment within appointed time on the basis of the exporter's letter of rights. Interest is charged at certain rates if the importer delays the payment beyond the agreed time limit;
2) ***Open Account:*** Exporter ships the goods without financial documents to his advantage except commercial invoice. Sales on open account are settled through agreed periodic remittances. Considerable risk is involved in the open account method as seller carries no documentary evidences of transaction with him. Hence, this method is generally confined to interrelated companies.
3) ***Payment by Return Mail:*** Under Payment to return mail method, the seller ships the goods and a shipment advice is sent to the importer. The importer must make the remittance immediately on receipt of shipment advice.
4) ***Payment against Bills of Exchange:*** Under this method, the exporter ships the goods to the importer on the basis of bills of exchange drawn on importer's name. In addition to documentary bill of exchange, invoice, shipping bill and insurance are enclosed. The exporter sends the bills of exchange directly or through the bank for collection of payment.

Foreign Trade Financed by the Exporter with the Assistance of his Bank

Under this category, exporter obtains bill of exchange from the importer which will remain with him for a certain period of time. After the expiry period

the exporter accepts payment from the importer. Besides, the exporter can discount the bill from any commercial bank for finance if he needs finance before the expiry period of the bill.

Foreign Trade Financed by the Importer

Sometimes, the importer imports the goods on paying cash in advance. The following are the main types of short-term credit given to the exporter by the importer:

(1) ***Payment on placing orders:*** The importer makes full payment in advance on placing firm orders with the exporter.

(2) ***Cable transfers:*** Under this system, a cable message will be sent to the importer by the exporter once the goods are ready for dispatch. On the receipt of the cable message, payments are made to the exporter.

(3) ***Payments through confirming houses:*** Resident Buyer or a Forwarding Agent may be confirming houses. The payments will be made by the confirming houses to the exporter on the basis of firm order by the importer. However, exporter will be prepared to accept payment on the basis of credit worthiness of confirming houses.

Foreign Trade Financed by Importer with Bank Assistance

The exporter can get import finance through a bank by any of the following two methods:

(1) ***Bills of Exchange:*** Documentary bill or documentary draft is one of the main methods of payment in export trade. Under this system, the exporter has to draw a bill of exchange on the buyer, payable at sight when no trade credit is being extended or payment at some future date to take care of inherent credit terms. The exporter is supposed to submit the bill with documents of title namely, commercial and custom invoices, marine insurance policy. The sets of documents are to be surrendered to the importer on the payment of the bill. In respect to sight bill, the amount is realized and remitted back to the exporter's bank account. But, in time bills, after the bill is accepted by the importer is returned to the exporter's bank to be presented again to the buyer for payment on the date of maturity.

(2) ***Letter of Credit:*** Under letter of credit method, the exporter who desires to get an assurance of payment against documents usually stipulates in his contract with the overseas importer by means of banker's letter of credit which enables the exporter to obtain immediate payment of his invoice against shipping documents. The two main kinds of letter of credit are: (i) Irrevocable letter of credit and (ii) Revocable letter of credit. An irrevocable letter of credit is one which after issuance cannot be cancelled without the consent of parties concerned. A Revocable letter of credit can be altered or cancelled at any time without any consent or reference to the beneficiary or seller or exporter.

Foreign Trade Financed by Banks

Under this category, on the basis of the request of the importer, the bank opens documentary credit and makes payment to the exporter by obtaining the documents. The bank accepts the bills drawn by the exporter and the exporter gets the accepted bills discounted and gets the short-term finance.

Foreign Trade Financed by Accepting Houses

The main function of an accepting house is to accept the bills drawn by the exporters. Normally, the importer and Accepting house will have a written agreement in which the house accepts the bill drawn by an exporter. Accepting house accepts commission for its work from the importer. After sending the acceptance from Acceptance house, the exporter gets such bills discounted and gets payments.

Foreign Trade Financed by Discount Houses

Discount houses are trading houses engaged in discounting of bills. The Discount houses discount the bill if it is accepted by any accepting house. Further, the Discount house discounts the bill on the basis of credit worthiness and financial soundness of the exporter as well as importer even if the bill is non-accepted by an Accepting house.

Medium and Long-Term Finance

Long-term finance refers to the credit facility extended upto a period from five to twenty years. It is provided for long-term development activities such as purchase of capitalized heavy items such as ship-building, purchase of electric machines, heavy engineering goods, etc. Long-term finance generally

involves higher levels of risk than short-term finance. Hence, the interest rate for long-term finance is more than other forms of credit. The World Bank, International Monetary Fund, International Development Association and Asian Development Bank are some of the International financial institutions granting long-term credit. The main purposes of long-term credit for both exporter and the importer are presented below:

(1) To import and export of capital goods,

(2) To provide credit facility on liberal terms to the importer,

(3) To execute the export promotion programme,

(4) To establish new enterprise, and

(5) To make capital investment in other countries.

The medium and long-term credit can be divided into two. They are:

(1) Supplier's Credit, and

(2) Buyer's Credit

(1) **Supplier's Credit**: Under this system, the Indian exporter will offer credits to the overseas buyer. The exporter can, on the other hand, secure reciprocal credits from the commercial banks which in turn, can get refinance from the Exim Bank.

(2) **Buyer's Credit**: It is a means of financing an export transaction involving capital goods and equipment of large value or complete turnkey projects on long-term credit. Loan is extended by a bank or other financial institutions in the supplier's country to the overseas buyer who is thus in a position to pay cash for the supplies received. The loan is guaranteed by the buyer's bank or often extended to the buyer's bank itself for the specific purpose in view. The main two points to be made in this connection are: (i) supplier gets his money if he fulfils his responsibility, and (ii) there is no involvement of transfer of funds from one country to another.

(Source: DDE Course Material 'EXIM Financing and Documentation', Pondicherry University).

Forfeiting

The term 'forfeit' is derived from the French word meaning 'the surrender of rights'. Forfeiting is non-recourse discounting of export bills. Forfeiting is one of the forms of financing to the exporters. The Export-Import Bank of India is authorized by the Reserve Bank of India to undertake forfeiting for export financing. Alan C.Shapiro, in his book, 'Multinational Financial Management' has defined Forfeiting as, "the discounting at a fixed rate without recourse-of medium-term export receivables denominated in fully convertible currencies".

Example: ABC Co. Ltd. has exported to a buyer in London and ABC Co. Ltd. will get export payment after 5 months. In this situation, under forfeiting, ABC Co. Ltd. can get export bills discounted with a forfeiting agency, through EXIM Bank. The forfeiting agency will pay the amount after deducting a fee (commitment fee, discount fee and documentation fee) prescribed for forfeiting.

INTERNATIONAL COMMERCIAL PAYMENTS

The following are the methods of effecting international commercial payments.

1. Advance payment or cash with order
2. Trade credit or open account
3. Documents against payments
4. Documents against acceptance
5. Letter of credit
6. Payment against goods sent on consignment
7. Foreign bills of exchange
8. Bank drafts and telegraphic transfers

ADVANCE PAYMENT OR 'CASH WITH ORDER'

Under this method importer makes payment before the shipment of goods by the exporter. Exporters receive money in advance before sending goods to importers. The advance payment is made by the importer either on confirmation of order or when the goods are ready for export. Full payment for the transaction may not be made as advance payment. A part of the payment may be made as advance along with the order and the balance will be paid

when the goods are finally delivered by the exporter. Advance payment is made when the goods are made-to-order and exporter is in a dominant position.

TRADE CREDIT OR OPEN ACCOUNT

Under this method, Importer will make payment after taking the delivery of goods from the exporter. It is similar to the trade credit in the domestic sales. It is a risky method of payment to the exporter.

DOCUMENTS AGAINST PAYMENTS

In this method of payment, exporter arranges to dispatch goods, prepares and collects relevant documents. He also arranges to draw a sight bill of exchange on the importers and sends all documents to the importer through importer's bank. A sight bill of exchange is payable immediately after presentation. Bank will release all documents sent by exporter to the importer on receiving payment. Importer will take delivery of goods after getting all documents from the bank. This method of payment is advantageous to the exporter because documents will not be released until the payment is made by the importer.

DOCUMENTS AGAINST ACCEPTANCE

Under this method of payment also exporter arranges to dispatch goods, prepares and collects relevant documents. But he arranges to draw a time or usance bill of exchange instead of sight bill. All export documents and usance bill will be sent to the buyer through his book. Usance bill is payable after the lapse of agreed period of time, usually 30, 60 and 90 days after the date of acceptance. Buyer will get documents from the bank by giving acceptance to pay after a period of time (30, 60 or 90 days). Exporter can discount the accepted bill of exchange and get money from bankers.

LETTERS OF CREDIT

Letter of credit is defined as "a written undertaking given by the importer's bank agreeing to pay a certain sum of money within a stipulated period against a specified set of documents". Letter of credit is an instrument authorizing a person to draw a bill or a cheque for a specified sum on the issuing bank at a stipulated time. Letter of credit is issued in accordance with the Uniform Customs and Practices for Documentary Credit issued by the International Chamber of Commerce.

Under this method of payment, importer instructs his bank to open a letter of credit in favour of the exporter. Importer's bank is known as issuing bank. This issuing bank will instruct the correspondent bank (exporter's bank) in the exporter's country to provide payment or to pay, accept or negotiate bill of exchange provided all the relevant documents have been received by that bank and terms and conditions mentioned in the letter of credit should be fulfilled. This method of payment is advantageous to both the exporters and importers. Once the letter of credit is owned and received by the exporter, export payment is assured; payment will be made after fulfilling all terms and conditions stipulated in the letter of credit.

FOREIGN BILLS OF EXCHANGE

Payment through bills of exchange has been discussed under Document against acceptance and Document against payment. Usance bill is drawn under documents against acceptance and sight bill is drawn under document against payments. Bill of exchange is a written request or an order from the drawer to the drawee to pay a certain sum of money either to himself of the payee as ordered by the drawer on demand or some time hence. The operation of foreign bill of exchange is explained by Mithani D.M., as "the creditors of one country draw bills on their debtors (importers) in other countries and have them duly accepted by them. These bills they send to the debtors of their country who desire to send money abroad. The debtors (importers) send these bills to their creditors in other countries who collect from them from the debtors of their own country (who had originally accepted the bills).

BANK DRAFTS

Bank draft is also one of the methods of international payments. Bank draft is used in the domestic market as an instrument for payment. The process of making payment through bank draft is similar in domestic market and international market. Bank draft is defined as "an order of bank to its branch or another bank to make payment to the bearer or order on demand a specified amount out of its deposit account". In international trade, importer gets bank draft from and sends it to the exporter and exporter will deposit the draft in his bank and collect money for his exports.

TELEGRAPHIC TRANSFER

International payments could be made through telegraphic transfer. Under this method of payment a telegraphic order is made by a bank to its correspondent bank in foreign country to pay a certain sum of money to the specified person on account of its deposit account. Here, the importer has to deposit money with the bank and request to send money to the exporter through telegraphic transfer.

All international payments are made through banks. Letter of credit, telegraphic transfer, bank draft and foreign bills of exchange are popular instruments involved in all transactions of the foreign exchange market.

QUESTIONS

1. What do you understand by export pricing? Explain the factors influencing export pricing.
2. What is international transfer pricing?
3. What is counter trade? Explain its forms.
4. What is export finance?
5. What are the various methods of payments in export market?

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CHAPTER-V

PROMOTION MIX

Objective of this lesson is to help learners to understand

i) promotion strategies in export market and

ii) overseas product exhibitions and trade fairs.

INTRODUCTION

Promotion mix is a company's total marketing communication programme. It reveals what to communicate, and how to communicate to the end users about the company and it's products. Promotion mix is a combined marketing communication programme deals with advertising, personal selling, sales promotion and public relations tools that are used by the company to achieve marketing objectives. Philip Kotler has defined the components of promotion mix as follows.

Advertising is defined as, "any paid form of non personal presentation and promotion of ideas, goods or services be an identified sponsor".

Personal selling is defined as "personal presentation by the firm's sales force for the purpose of making sales and building customers relationship".

Sales promotion is defined as, short term incentives to encourage the purchase of sale of a product or service.

Public relations is defined as, "building good relations with the company's various publics by obtaining favorable publicity, building us a good 'corporate image', and handling or heading off unfavorable rumors, stories and events".

Making the consumers well known about the product, induce they to buy, and retaining they as permanent and loyal customers are the primary objectives of product promotion. Any product in the market crosses the stages, such as, awareness, knowledge, liking, preference, conviction and purchase for reaching in the hands of consumers. Any marketing communication program should concentrate on the above six stages and make the buyers to express their readiness to buy. Any product promotion program should create awareness about the product in the target market, make the consumers to come forward to know What it is? and motivate they to buy and prefer the products. Later the program should make consumers to purchase and use the product for a long period of time.

It becomes essential what to communicate and how to communicate about the product to the end users. The message taken about the product to communicate to the buyer for product promotion should get attention of the customers, hole interest with them, arouse desire to they and obtain action from them. It is popularly known as AIDS model in product promotion program. It should carefully decide message content, message structure and message format. The communicator can design his message content in three types. They are, rational appeals, emotional appeals and moral appeals. Rational appeals emphasises product features such as quality, economy, value or performance. In rational appeals, the message should be related to self interest of the customers. Emotional appeal emphasises to build positive or negative emotions that will motivate consumers to buy. In emotional appear the message may be related to fear, guilt, shame, love, humour, and joy. Moral appeals emphasised in its message, What is right of proper to the end users. The consciousness of right and proper play a vital role in buying decisions.

Message structure about the product should be carefully designed in product promotion program. The message should highlight competitive strength of the product and its superiority in the market. The message format is also equally important. It should be attractive. Consumers see the format before reading the message. Unless the message format is effective, excellent message structure may nor reach the customers and the purpose of product promotion program will be defeated. In product promotion program, as print advertisement, the communicator has to carefully decide the headline, copy, illustration, eye-catching pictures and colour to attract the consumers. Attracting consumers should be given priority in message format for any marketing communication program.

Media selection is another important factor in product promotion programme. Content, structure and format of the message related to product will past through a media (news paper, magazine, radio, television etc.) to the customers. The communication channels are classified into types. They are, personal communication channel and not personal communication channel. Consumers directly communicate with each other about the company and its products is known as personal communication channel. Word-of-mouth is also personal communication. Media and events are listed under nonpersonal communication channel.

IMPACT FREEBIES - Sales Promotion

Jams, toothpastes, soaps, TVs, washing machines, refrigerators and readymade garments are just some of the product categories in which freebies are given to consumers simply to make they buy the brand. This raised a number of questions regarding the freebies. impact or brand equity and the objective of such sales promotions.

i) How do consumers reach to such sales promotions?

ii) Would these strategies be able to retail the consumer after he/she tried the brand (in FMCG products) or can these kinds of sales promotions lead to relationship building in the case of durables?

iii) How effective would these sales promotions be to ensure that competitive brands/companies with deeper pockets do not reach to such sales promotions?

iv) 'Pushing' the brand during difficult times in one, and measuring the profitability of such as approach is another. If these sales promotions are just 'investment', how would these brands recover the investment over a period of time? Are these back-up strategies to ensure development of customer relationship?

The answer to these conceptual dimensions would ensure the brand is following the marketing orientation and nor just sales orientation. Besides, planning the sales promotion with these dimensions would also reflect the marketing acumen within the company. The dimensions are realistic enough for practicing managers to explore and analyse with out which sales mindset replaced the broader marketing mindset. A brand of soap has a sales promotion that a consumer buying three pieces of the brand would get a fourth one free. A competing brand introduced a variant of the promotion. Another brand introduced a bonanza, which may be equal to thousands of rupees. There is need for any brand to create excitement once in a way buy brands seen to be getting into the vicious cycle of freebies. In there any approach a soap brand follows to identify and reward loyal users of the soap in this clutter of freebies and point-of-purchase material as the retails outlets? In today's context, loyalty may not be just to one brand (especially in the soap category). As the least, a segmented approach towards identifying loyal buyers and nor-so-loyal buyers before formulating sales promotion strategies is necessary.

The benefits of the sales promotion should differentiate between the two segments. This could be worked out through appropriate marketing research techniques. In durables, the situation is not very different. Each brand seems to outperform the other or freebies with the retailer adding his bit (certain large-scale retailers may plan such strategies because they are able to effectively negotiate prices with manufacturers due to the volumes they command).

Akai's initial sales promotion was a phenomenal success because it was able to make use of a need nor fulfilled by any brand - an exchange scheme with a reasonable price for TV set already being used, regardless of the brand used. It was not a feeble, which was offered just for the sake of it. In there any durable brand which conveys a special benefit to the used of the brand when the used is in the replacement phase? This benefit should be better than that given to the not-used of the brand. BPL, Videocon and Philips are brands, which are likely to have a large number of consumers who have brought the respective brand as their first buy. Marketing and consumer behavioural concepts are especially useful when marketers find the going tough. Marketers may not need they when brands sell by themselves. (Source: The Hindu Business Line, 27.11.2001)

PRODUCT AND PROMOTION MIX

Product is an important factor determining a specific method of promotion: Promotional tools will not be uniform for all type of products (consumer products, industrial products). Promotional tool used for consumer products may be less important for industrial products. Companies producing consumer products concentrate on advertisement for product promotion. Industrial goods companies concentrate or personal selling.

Order of priority for product promotion tools:

Product Promotion Tool	Order of Priority	
	Consumer Products	Industrial Products
Advertising	I	III
Sales Promotion	II	II
Personal selling	III	I
Public relation	IV	IV

PUSH AND PULL STRATEGY IN PRODUCT PROMOTION

Push strategy refers the efforts (product promotion activities) taken by the company to rush the products through channels to the end users. Personal selling and sales promotion activities undertaken by the company to push the products through channels from producer to middlemen and middlemen to end users is known as push strategy i.e. pushing goods and services to the end users.

Pull strategy created demand for the product to the consumers through product promotion tools, especially, advertising and sales promotion. The effectiveness of the sales promotion tools will make consumers to demand products from the middlemen and in turn middlemen will demand from the company. Consumers are pulled to the company through middlemen (channels) to demand and but products and product promotion measures will succeed.

Direct marketing is also one of the product promotional tools. It is a direct communication about the product to the middlemen and end users and immediate response from the used is also obtained. There are four forms of direct marketing. They are, (i) direct mail and catalog marketing, (ii) telemarketing, (iii) television marketing, and (iv) on-line shopping.

Advertising will serve in the various stages of market making of a product. Advertisement which is used when introducing a new product is known as informative advertising. When the level of competition increased in the market, persuading consumers to buy products becomes essential. In this situation persuasive advertisement is used. Comparison advertising is used to reveal the strength of a company's product over the rival products. Reminder advertising is used to keep the consumers to think about the products frequently and make them to know the product existence in the market. Communication effect and sales effect will determine the effectiveness of advertisement.

Sales promotion provides incentives to buyers to increase sales of goods and services. There are three promotional tools under sales promotion. They are (i) consumer promotion, (ii) trade promotion, and (iii) sales force promotion.

Consumer promotion deals with samples, coupons, rebates, price-off, premiums, contests and others. Trade promotion deals with buying allowances, free goods merchandise allowances, etc. Sales force promotion deals with bonuses, contests and sales rallies.

Fulfilling social responsibilities will strengthen corporate identify in the market and public relations. Attractive, distinctive and memorable logos of companies will serve as a product promotional tool. Attractive and distinctive uniform to employees, business cards, buildings and other corporate identity materials will also serve as product promotional tools and strengthen public relations.

PERSONAL SELLING

It is one of the product promotion tools contributed to achieve marketing objective through prospecting, communicating, selling and servicing, and information gathering. Personal selling practices are market oriented and inculcate the skill of marketing analysis and planning in addition to selling skills. Market analysis and planning are objectives of personal selling in addition to selling the goods and services. The employed sales force should built a long term relationship with loyal customers by providing superior customer value and satisfaction. The personal selling practice should be customer-oriented. Sales people must be trained to identify customer needs and ways and means to fulfill their needs. In international marketing, customers preferences, needs, and buying behaviour will vary from one region to another region. Sales people should be trained in such a way to serve the customers in different marketing environment. Identifying needs and requirements of customers will increase sales opportunities and a strong trade relationship will be built between sales people and customers. The sales people should serve as a problem solves to both company and customers. Sales people should suggest the companies in framing marketing and selling policies and suggest consumers about the alternative products available to fulfill their needs and increase use value. Sales people should avoid pushy attitude, unpreparedness and disorganised presentation of products and services. Honesty, thoroughness and follow-through are stated as essential qualities of sales people. In international marketing, sales people are employed not only for selling goods and services, but also for market research and assessing market professionals in the emergency markets. Personal selling is an art. Unless sales people explain the features of the product, the quality products will nor reach consumers and consumers are loosing the opportunity of buying quality goods. In international marketing, sales people should explain to the consumers in what way the new products will be useful to they in their day-to-day life. Sale person should be an excellent communicator with pleasing qualities winning confidence of customers. It will pave the way for

pull strategy for market maximization. In international marketing, sales people should be acquaint with language culture, buying motives, buying behaviour, shopping pattern of consumers and other environmental factors. (economic, Political, legal, demographic and geographic, technology etc.). In the globalised regime, global sales people are needed. Sales people recruitment becomes worldwide. Training and compensation are also as pay with the international standards.

PROMOTION STRATEGIES

International marketing is influenced by social and cultural forces (family, social customs and behaviour, education, language differences), economic environment (economic fundamentals and infrastructure) and political and legal forces (trade barriers, trade agreements). Factors influencing international marketing environment should be given priority while designing promotion strategies.

The important objective of promotion is to communicate with buyers and to influence them to buy the desired product. Promotion provided the desired information of the product to the buyers and maker them to comprehend that information. The promotion campaign should motivate the buyers to reach positively. The purpose of promotion strategy is to maximise market share for the desired product and maximise profit. There are several promotional tools available to undertake sales promotion campaign. The promotional tools that are used to communicate with and influence consumers are give below:

i) Personal Selling

ii) Publicity and

iii) Sales Promotion

International Trade Fairs and Exhibitions

International trade fairs and exhibitions is one of the sales promotional activity in the international market. Regular advertisements and sales brochures may nor adequate to assess the quality and durability of certain products. Product quality and durability can be assessed through product exhibition, product demonstration and physical examination. International trade fair and exhibition will pave the way for product exhibition and demonstration. It is a costly form of promotion. The Government of India provided financial

assistance under Market Development Assistance to the exporters participating international trade fairs and exhibitions.

International Advertising

Sak Onkvisit and John J.Shaw define international advertising as 'the product of advertising in foreign or international; media when the advertising campaign is planned, directly or indirectly, by an advertised from another country'. It becomes essential to determine the availability of advertising media in the overseas market. Commercial TV time differs country to country. The research paper "Emotional Impact Can Cut Clutter of 15-second Soots" published in Marketing News reveals that "there are atleast two tactics an advertised can employ to overcome the problem of lack of broadcast time for advertising. One is to use shorter commercials. In the United States, the thirty-second spot in the norm and the use of the fifteen-second commercial is limited, but in Japan the fifteen-second spot in standard. Advertisers there have learned to achieve simplicity and charity in using this type of commercial. Japanese commercials demonstrate that developing a strong, recognizable hook is the key to a successful". Television, radio, magazines, direct mail, directories and outdoor advertising can be used as tools of international advertising.

Advertising the same product in the same way everywhere in the overseas market is known as Standardised International Advertising. It is an advertisement used everywhere in the world market with virtually no change in the theme, copy of illustrations. The non-standardised or customised advertising deals with the differences (culture, taste, media, discretionary income) among countries. It customised advertisement there will be a change or modification in its theme, copy of illustration from one market to another world market. Developing a specific advertising programme becomes essential rather that standardised one, to achieve a greater impact in the local markets.

Subash C.Jain, in his paper 'Standardisation of International Marketing Strategy' Same Research Hypotheses, published in Journal of Marketing (1989) has expressed that standardised advertising is more practical and effective under these conditions:

i) Markets are economically alike,

ii) Worldwide customers nor countries are the basic for identifying the segments to serve,

iii) Countries have similar customer behaviour and lifestyle,

iv) The product has cultural compatibility across countries,

v) There is a great degree of similarity in the firm's competitive position in different markets,

vi) The firm competed against the same adversaries with similar share positions in different markets,

vii) Product is industrial or high-tech,

viii) Home market positioning strategy is meaningful in the host market,

ix) Countries have similar physical, political and legal environments,

x) There are similar marketing infrastructures in the home and host countries,

xi) Firms possess key managers who share a common world view,

xii) Strategies consensus existing among parent-subsidiary managers,

xiii) Authority for setting policies and allocating resources is centralized.

In the above conditions are nor prevailed corporates can go for customised or nonstandardised advertising. Standardised advertising reduces cost of promotion.

Warren J.Keegan in his book, 'Global Marketing Management' has given certain guidelines for assessing appropriateness of standardised advertising. He has stated five international product and promotion strategies relevant to standardised international advertising. He has emphasised that uniformity in use conditions of a product in the world market determines product extension. (no change in product everywhere in the world market). Similarly standardised advertising can be adopted if consumers' need for a product is universal in the world market. Keegan's promotional strategies are given below:

i) Product - Communications Extension One product, one message everywhere in the world market

ii) Product-Extension-Communication Adaptations

iii) Product-Adaptation-Communication Extension

iv) Dual Adaptation (both product and communication - promotion have to be changed from one market to another market)

v) Product Invention (new product may be introduced if the existing product in expensive).

Standardised advertising is influenced by the factors such as, legal regulations, media and agency availability and literacy.

FEATURES OF PRODUCT PROMOTION

1. Applicability

Don't thing when, where or why; Think How.

2. Bundling

Use bundled to increase trails or gain access a new segment, but choose them carefully.

3. Construct

Construct the promotion plan keeping is mine brand - objectives and customer behaviour.

4. Dissonance Reduction

Don't write post-purchase promotion off.

5. Enough

Link your promotion plan to other elements of the marketing mix.

6. First-moved Advantage

Use a promotion plan now, on your competition will.

7. Gratification

The consumer needs to be rewarded now.

8. Hand-outs

Give is to them free, but first define them.

9. In-pack Premiums

Use in-pack premia with low-involvement products targeted as children.

10. Jump-Start Effect

Use a promotional plan to get your brand off the ground.

11. Killing the Brand

If promoted too often, you may find it difficult to sell your brand without a promotion.

12. Length of Promotion

Promotion - nor too short, nor too long - that is the secret.

13. Motivation

Plan your promotion the same way you would plan as campaign.

14. Non-urban Promos

You cannot afford to ignore the trade in rural promotion.

15. Objectives

Understand what you wish to achieve before launching promotion plan.

16. Perfect Timing

Focus of the timing.

17. Quantification

Define the metrics and quantify the results of promotion.

18. Regulations

Ensure that your promotion does not fall four of the MRTPC.

19. Subliminal Brand-Building

It is difficult but try to use your promotion to build the brand.

20. Targeting

Define your target carefully.

21. Onslaught Promotion

Accept its your brand may nor always need a promotion.

22. Value vs Volume

A short term spike in volume and a long term increase in sales - that is ideal promotional objective. S419

23. What now?

Follow your promotion with other marketing efforts.

PROMOTION - A CONCEPTUAL FRAMEWORK

High Intensity of Competition

Use promotions to induce brand-switches	Use promotions for dissonance - reduction
Use promotions during brand launches	Use promotional contests to increase customer involvement

Use price-off promotions to gain marketshare

Low Involvement Product -- High Involvement Product

Use promotions to build brand recall

Low Intensity of Competition

Promotion can build recognition and sales in the short term and brand awareness in the long term.

Promotion can reinforce brand-perceptions that have been built through mainstream advertising.

Promotion can change perception as a local, tactical level with a small group of customers.

Promotion can effectively introduce the brand to a new market and a new target segment.

Mr. Vikash Gupta, Marketing Manager, Coca-Cola India has expressed that "the strategic point for out promo is a strategic brand-purpose; the incremental volumes are a by-product".

PRODUCT PROMOTION: AN OPERATIONAL TEMPLATE

Target Decisions		Construct Decisions	Operational Decisions	Evaluation
		Samples		
	C	Coupons		
Promotional	U	Cash Refunds	Reach	Sales
Objectives	S	Price Packs	Frequency	Awareness
	T			
	O	Premiums	Duration	New Customers
Sales	M	Advertising	Advertising	Brand Switches
Objectives	E	Specialities	Support	
	R	Loyalty Rewards	Trade Incentive	
	D			
Brand	E	Contests		
Objectives	A	Dealer		
	L	Discounts		
	E	Dealer contests		
	R			

Source: Business Today, October 2000

INTERNATIONAL TRADE FAIRS AND EXHIBITIONS

Trade fairs and exhibitions are today the most cost effective technique for disseminating product and related information in the domestic as well as overseas market. The trade conferences create a platform to the industrial houses to exchange their views and opinions about the Government policies, problems they encouraged and the development in the Indian industrial sector. Participating trade fairs and exhibitions in the easiest way to the corporated to enter into the global market. Identifying the importers or dealers in the

international market is nor as easy task to the exporters. They have to visit foreign countries for identifying importers. Trade fairs and exhibitions bring the buyers and sellers under one roof and the exporters can easily identify the buyers and the buyers can identify the reliable suppliers. Trade fairs is a platform to meet buyers and sellers in a relaxed atmosphere for mutual benefits. It is the most effective tool of sales promotion. It assists the consumers also in making complex buying decisions.

Of late, selling is nor a sole objective of the business. It is one of the objective of the business. The concept of traditional marketing i.e., giving salient features of the product by advertisement in different median for sales promotion has no place in the emerging markets. The concept of interactive marketing has come up. The companies have to interact with the consumers regularly to identify their preferences, tastes and style of using the products. Many big companies have established internet facilities in their show rooms to interact with the customers directly. The customers through internet can interact with the companies and suggest the improvements to be made in the products and services offered to the customers. Trade fairs is a source of interactive marketing. Buyers interact and discuss with the trade representatives in the fairs and get first hand information about the products and services that are offered by the corporates.

TRADE FAIRS AND THEIR ADVANTAGES

The advantages of the trade fairs are listed below:

(i) Source for Increasing Exports

International Trade Fairs and Exhibitions are the sources for increasing exports. The export orders are confirmed in the trade fairs itself. National or international conferences poor the intellectual aspects of trade and commerce is one place and the benefits of these conferences to industrial world are immense. In trade fairs and exhibitions domestic and international business houses can meet to exchange their ideas and views about their business and development in the technologies. Trade exhibitions are the gateways for corporates who are looking for entry in the global market, after performing well in the domestic market.

(ii) Opportunity to Display Products

Trade fairs/exhibitions provide an equal opportunities to all their participants to display, promote and publicist their products/services in a cost effective way. In trade fairs buyers get an opportunity to sea various brands for a particular product under one roof. They can compare the different brands and assess the potentials of the brands and take their buying decisions.

(iii) Strengthening Corporate Image

The important objective of any business enterprise is to strengthen the corporate image or establishing the company's products/services in the minds of the clientele This objective is amply fulfilled in a trade fairs/exhibition where the exhibitor brings the show room for his products/services to the customers. Trade fairs have a direct correlation to the expectations of the participants and the visitors. The main aim of the exhibiting business unit in the fulfilment of its business goals. Trade fairs provide a unique combination of a global reach to the target and new customers along with personalised direct selling.

(iv) Chance to interact with customers

Ruchika Batra, Manager, Communications, Samsung India Electronics Limited has stated that companies normally participate in exhibitions/trade fairs because they facilitate an interaction with existing potential customers which is very different from that at a dealer shop. The visitors interact with the company representatives and can get information first hand - not just or existing products but also on new products planned for introduction. Trade fairs/exhibitions also give the participating companies a chance to display their entire products/services range and build a brand image. Exhibitions serve as ways of reaching out to customers who are not necessarily taking a purchase decision immediately or in the near future, as opposed to customers visiting dealer shops, who are nearing purchase decisions. Trade exhibitions serve the consumers sufficiently so that they will consider purchasing a particular brand as some later point of time.

(v) All Products under one roof

In trade fairs consumers observe a large collection of products under one roof. In given an opportunity to them to compare quality, price and performance of the products in the market. Educating the consumers about the salient features and comparative advantages of the products and mildly inducing the consumers

to buy the products are the marketing strategies adopted in the trade fairs and exhibitions.

Of late, trade fairs/exhibitions are nor general in nature. They are specific. Trade fairs are organised for specific products/services. Trade fairs for automobiles, textiles, plastics, spices are the exampled for the trade fairs of specific nature. Certain trade fairs do not permia general visitors and they admit only business visitors.

The Government of India provides financial assistance to the Indian companies participating the international trade fair, or exhibitions abroad, under Market Development Assistance.

Under this scheme financial assistance in provided for carrying goods abroad, stall rent in the international trade fairs and other incidental expenses.

(vi) Opportunity to meet end users

In the export trade, exporters have no chance to ascertain the tasted and preferences of the end consumers, unless the exporters visit the foreign countries and interact with the end consumers. Exporters have link with the intermediaries (importers, export agents) only for the purpose of exporting goods in the overseas market. Trade fairs create an opportunity to the exporters to meet the end consumers and to ascertain their taste and preferences in buying decisions. This will help the exporters to offer need based products to the end consumers. Trade fairs pave the way to the exporters to reach the right intermediaries so as to set up a business relationship that will work for some years atleast and exporters can get authentic, relevant and current information on consumer tasted and demand in their target markets. Industrial enterprises can judge the market taste, required quality, price and new product developments while participating the trade fairs.

ORGANISING TRADE FAIRS

Organising trade fairs or exhibitions required an extensive planning and coordination. The hospitality to be provided to the participants assumed greater importance. Managing exhibitions required a motivated workforce, creative outlook, research oriented minds and advisors who are actively involved in the hospitality industry. How to organise and where to organise the trade fairs must be planned in advance. The participants of the trade fairs is also to be decided in advance. The place where the trade fairs is organised should possess

comprehensive infrastructural facilities compatible with the theme of the trade fairs.

TRADE FAIR PROFESSIONALS

Nowadays professional trade fairs/exhibitions organisers are coming up for organising trade fairs. They manage all the services and facilities required by the delegates. Wisitex Foundation is India's one of the leading organisers of international quality exhibitions, trade fairs, trade expositions, seminar and symposia. This foundation was started in the year 1975. The important activities of this foundations are listed below:

- Highlighting the impact of various economic reforms of the Government through seminars, symposia's and exhibitions.
- Organising buyers-sellers meet for bringing they together for the benefit of international business and for trade and transfer of technology.
- Facilitating strategic alliances and joint ventures with foreign companies for attracting foreign investment.

Wisitex Foundation has organised exhibitions on the various topics such as instrumentation, telecommunications, infrastructure and investment, fashion technology and software.

Pavilions and Interiors is another organisation functioning in India having two decades of experience in organizing exhibitions, designs and execution. It offers the exhibition organisers the latest type of octagonal panel system for construction of booths, information centres, special identity facades, furnishing, carpeting and allied services matching international standards. Pavilions and Interiors provider all the infrastructure facilities required for organising trade fairs.

Exponent Associates is another organisation delivery excellent service to the organisers of trade fairs. It's activities include organising exhibitions, conferences, business meetings, press and media coverage and trade fairs in India and abroad for the benefit of the industrial and business houses. Exponent Associated provided the services in connection with the exhibition design, standard interiors and construction, security and conservancy, secretarial support and guides.

Tefla's Conferences and Events is another service organisation involved in organising academic and corporate meets, buyer-seller meets, event management, product launches and other related services. The professionals of this organisation are provided with extensive databases, exhibition systems and network for customised events promotions. In the year 1997, Tefla's Conferences and Events organised Asia-Pacific Crop Protection Conference, International Workshop and Expo on Global Advances in Tea Science and International Symposium on 50 years of Metallurgy.

Tafean Group is a professional teak having experience in trade fair planning, Organisation and management in India and abroad. This group is build with the professionals of various disciplines such as trade fair management and presentations, visualisers, engineers and administrators, journalists and public relation experts. Tafean group organised trade fairs focusing on products like instrumentation, design, pulp, paper and machinery for proper industry, air conditioning and refrigeration equipments, watches and clocks, building material technology, bit-industries, poultry and related equipments and technologies.

Re Rogers India is backed with Indian and European personnel extends specialised exhibition services to industrial houses in India and abroad. Re Rogers India serves the international organizers, Governments, trade associations and exhibitors by providing expertise and resources to facilitate every aspect of exhibitions/trade fairs.

Impresario Services India organises trade fairs and exhibitions in India and abroad. Its service package consists of space booking, promoting of exhibitions, bringing in participants, stall allocations, interiors, inauguration and closing ceremony management and communication network as exhibition venue.

Confederation of Indian Industry (CII) is serving a lot to the industry/business community by organising trade fairs and exhibitions in India and abroad. It has organised international trade fairs in Mauritius, Osaka (Japan) and Nairobi (Kenya). The trade fairs/exhibitions organised by the CII have focused on financial services, investment in tourism sector, agro-tech, food processing, environment, textile machinery, quality management, automobiles and national and international logistics management.

Australian Exhibition Services is one of the leading organisers of national and international exhibitions in Australia since 1982. It helps Indian industry to participate in the trade fairs abroad and to advertise in the foreign media. The

trade fairs organised by the Australian Exhibition Services cover a wide range of industries such as food and beverage, construction, computers, electrical and electronics, industrial automation, oil, gas and maritime technology.

Trade fairs and exhibitions are the cost effective sources for disseminating products and services and for meeting the end users of the products. Trade fairs are effective sales promotion technique also. In trade fairs corporates interact with the end users. This transaction paves the way to ascertain the needs of the market and the production function will commensurate with the demands in the market. International trade fairs will make our exporters globally competitive.

QUESTIONS

1) What is promotion mix?
2) What is personal selling?
3) Explain the importance of sales promotion?
4) What are the merits of international trade fairs and exhibitions?
5) What do you understand by international advertising?

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CHAPTER-VI

DISTRIBUTION MIX

Objective of this lesson is to make the students to learn

i) direct and indirect channels in distribution mix,

ii) role of intermediaries in international market,

iii) factors influencing channel decision and development and

iv) international marketing information system and research

6.1 INTRODUCTION

Goods must physically reach the customer/user. Otherwise puts deliver an the customer's doors steps as the time needed, in the quantity needed, and in the condition see forts is very important. To-day businesses compete on delivery and several value addition actions have evolved. This delivery function is called as distribution. Distribution involves channel of distribution and physical distribution. Channel of distribution tells the vis through which ownership in passes from produces to the ultimate consumer/user. Physical distribution on logistics is concerned with physical movement process of the product from supplier/manufactures to the consumer/user. Louis Stern and del Ansary define distribution channel as a set of interdependent organisations involves in the process of making a product on service available for use by the customer. Below are presented some definitions of distribution channel.

6.2 DEFINITIONS

Channel of distribution according to William Stanton and others, consists of the set of people and firms involved in the transfer of title to a product as the product moves from produces to ultimate consumer or business user. A channel of distribution always includes both the produced and final consumer for the products as well as any middleman such as retailers and wholesalers.

Richard M. Clewett defines channel of distributions as the pipeline through which a product/commodity flows on its was to the consumer/user. The produces puts his product/commodity into the pipeline or distribution channels and various peoples move it alone to the consumer at the other end of channel".

John A. Howard defines distribution as a combination of agencies through the seller markets his products to ultimate user. Paul D. Converse defines distribution channel as a combination of middlemen who move goods a from produces to consumers.

It must be noted that the channel for a product extends up to the unit which buys it is the present form of the product. In the form of the product is changed, a new product emerges and with that a new channel also emerges. Distribution channel directs and supports the flow of goods from producers to users.

6.3 NEED, SCOPE AND OBJECTIVES OF CHANNEL OF DISTRIBUTION IN INTERNATIONAL MARKETING

Let us now examine the need, scope and objective of distribution channels.

Need for Distribution Channels

The produces and consumed of a product are separated be space. So, shipment of product to the consumes is indispensable. To perform this shipment a specialised set of peoples/organisations is needed. That set is called channel of distribution.

Production is mass and centralized. Consumption is retails distributed over time and decentralized. Therefore storage, retailing and delivery become necessary.

Channels of distribution are now used to promotion of products, because some promotional measures depend of complete participation by the distribution channel.

Producers need the services of distribution channel not only to off-loan the delivery function, buy also to aged market intelligence, to get finance, etc.

Consumers need the services of distribution channels since they cannot go directly to producers, which may be costlier because of time and space factors.

Scope of Channel Distribution

The scope of distribution channel is expanding. Distribution channel traditionally includes the functions and services of wholesalers, retailers, other merchant agents why take title to goods and mercantile agents like transporters,

insurers, forwarding and clearing agencies why do not take title to the goods dealt by them.

Study of distribution channels has to cover the different types of channels, viz. direct and indirect channels, channels for industrial goods, for consumer durable goods, for fast moving consumer goods, for agro-products for poultry products, for bulk goods, for tanker products, for gaseous products, for hazardous chemicals and so on.

Distribution channel related decisions are another area. Decisions as to whether to go for direct or indirect channel, is direct channel how-much close to the buyers or if indirect channels, the specific indirect channel, decision regarding the length of channel, decision as to type of interface with channel participants like dealers, wholesalers, agents, and retailers decision regarding relative role of different participants in view of their capabilities and requirements, to are managerial tasks involved in channel of distribution.

Besides, resolution of conflicts with channel participants and conflicts with channel participants come under the purview of distribution channel management.

Distribution channel efficiency, effectiveness and excellences distribution cost trends and trend in benefits of distribution function also form part of distribution channel.

Now a days, distribution channel is expanded to cover entire supply chain. Yes distribution management is called as supply chain management. Inward supply of inputs from vendors and outward supply of outputs to consumers together constitute the supply chain. Distribution management has to thus loom both backward and forward. With that, order making/processing, quality inspection/checking, carriage inward/outward, warehousing for inputs/outputs, vendor/customer relations and development, information exchange, remittance functions inventory managements packing, pick up/down delivery, customs/excise clearing, facilitating tracking of cargo is transit, etc constitute the scope of distribution channels.

Whether the firm has itself has to do all these or depend of third party service providers is a crucial question for which distribution management has to come with an answer.

Distribution channel has to deal with number of flows. Physical product flow, ownership transfer flow, payment flow, information sharing flow, and market promotion flow are the flows involved. These make the scope of distribution channel elaborate.

To-day competition is expanding, technology is advancing. So, the consumer's expectation has gone up. So, distribution channel should not narrowly restrict itself to trading functions alone. Distribution channel must loom out to the new challenges and hesitate not to expand its service.

Objectives of Distribution Channel

The first and foremost objective of distribution channel is ensuring customer satisfaction by meeting customer service needs in terms of in desired level of nearness of location providing the product, in desired level of waiting time, in desired level of assortment (many or speciality, in the products supplied and iv, desired level of do-of services like installation, credit, after-sale-services etc. The second object of distribution channel is to use the channel not only as pipeline for product delivery, but also as a feedback line for information of competitive and consumer sensitivitiness.

The third objective of distribution channel in promoting loyalty down the line which will help goods a large market share through myrias of policies, activities and engagements.

The fourth objective is to root into the market space to the desired level intensive or exclusive.

Finally, distribution channel has the common objective of optimising distribution cost given the above different objectives, so that cost and benefits are in match.

Low delivery cost, low delivery time, controller inventory levels, read· information, client and industry oriented services, maximum quality at minimum cost, technology savvy service, etc are the goals of distribution channels.

6.4 CHANNEL FOR CONSUMER AND INDUSTRIAL GOODS

The channels of distribution for consumer goods differ from those of industrial goods. These are prescribed below.

Consumer Goods C[illegible]

Consumer goods refer to goods meant for personal consumption. These are fast moving consumer goods (like toiletry products, cosmetics, healthcare products, edible items, etc) and consumer durable goods (like [illegible]ellary, automobile, textile, white goods such as fridge, washing machines, televisions, etc).

Intensive distribution is mostly needed for consumer goods. And consumers are spread throughout length and [illegible] in every country. Longer channels are generally needed. But as prod[illegible] and [illegible] features differ, as also the company's distribution objective, not one channel is [illegible] or efficient.

Different channels, thus exist for distribution of consumes goods. These are presented below.

Channel Participants

Produced → Consumers

Produced → Retailed → Consumers

Produced → Wholesales → Consumers

Produced → Wholesale → Retailer → Consumes

Produced → Wholesale → Jobber → Retailer → Consumers

Produced → Distribution → Wholesales → Retailer → Consumers

The produced in consumer channel is also known as direct channel as there is no intermediary between produced and customer is involved. There is direct contact/reach between them. Produced performs the function of distribution also. Mail order sales, internet sales, telephone sales, door-to-door sales and selling through produced owner stores come under this form of distribution channel. This channel cannot be lengthy. Exclusive/selective distribution is possible, although bit costly. But middlemen cost is avoided. So, consumer's price could be lower contributing to sales volume. The produced has full control over this channel. But too many contacts are involved.

The produced a retailer a consumer channel includes one level of middlemen. It is an indirect channel. Super-markets and departmental stores, large retail houses like say 'Vasanth & Co', 'Saravanas', 'Food World' in India.

Wal-mare and Sears if USA but directly from producers and sell to ultimate consumers. This is a popular channel. The producer has fail level of control over this channel.

The produced a wholesaler a consumer channel is a special cast where consumers are large scale or institutional. It is an indirect channel. Wholesalers boom bulk orders from institutional consumers and supply them. The products may carry the logo of name of the institutional consumer too. The producer has good control.

The producer a wholesales a retailer - consumer channel in the general type of distribution channel. It is an indirect channel. Small and medium sizes manufacturers of foods, drugs, toilet and cosmetic products, hardware, etc use this channel. The retailers carry competition products as well. They may push some products when the producer offers high commission. At the same time, they cannot ignore popular brands, even if only lower margin is allowed. The producer's control is limited.

Another indirect channel involving, the produced wholesales jobber retailer consumer uses three intermediaries. Is trades where the retailers are small and large numbered, wholesalers find it difficult to deal with the retailers. Jobbers step is between, buy from wholesalers and self to retailers. The producer's control over this channel is further fragmented.

Yet another indirect channel, the producer in distribution a wholesaler a retailer – consumer channel is one where the produced entrusts the marketing job down the line, wholly depending of the distributors. The distributors have a lot of control here. But the producers reduce the number of contacts to a very small level.

Industrial Goods Channel

Industrial goods are goods used in production of industrial/consumer goods, while certain products can be branded an industrial goods, most goods are called industrial goods because these are used in further production. So, the classification is based on who uses the products, consumer or a producer. In the latter cast it gets the name industrial goods. Iron and steel, cement, natural rubber, industrial equipment, machine/plants, raw materials, intermediate goods, etc are industrial goods. Depending of stage of development of the market the

distribution of industrial users in a geographical area and other factors, number of channels are available.

The different channels are depicted below:

Channel Participants

Manufactures → Users

Manufacturer → Distribution → users

Manufacturer → Agent/Representative → users

Manufacturer → Agent → Distribution → User

The manufactures uses channel in the direct channel. This channel is largely prevalent in the heavy industrial plant and machinery industry such as electrical turbines, petro-chemical processing plant, etc. The buyers happen to be bit industrial units in public or private sector. Usually made-to order trade pattern is prevalent.

The manufacture – distribution – uses channel in an indirect channel. General type machines like lather material handling equipments like cranes, etc are the product categories using this channel. The manufactures sells to the distributor, who is turn sells to users.

The manufacture a agent/representative a uses channel uses manufacturer's owe representatives/agents to channel the product to users. The agents/representatives are, however, not employees of the manufactures and they don't take title to the goods. In that sense, this channel is infact a direct channel. The agents/representatives word of volume/value commission basis and help in market penetration.

The manufacturer a agent distributor uses channel in the lengthiest and hence more indirect in nature. Iron and steel products, intermediate goods, raw materials, cement, etc are product categories using this channel.

6.5 COMPARISON BETWEEN CHANNELS OF DISTRIBUTION FOR INDUSTRIAL AND CONSUMER GOODS

Factors	Industrial goods	Consumer goods
Number of intermediaries	Less	More
Extent of producers: role	More	Less
Extent of intermediaries: role	Less	More
Producers' control of channel	More	Less
Extent of channel conflict	Less	More
Use of multiple channels	Less Likely	More Likely
Add-of service by intermediaries	Less	More

6.6 FUNCTIONS OF DISTRIBUTION CHANNELS IN INTERNATIONAL MARKETING

The functions of distribution channel are many and diverse. Functions rendered by channel participants depend of the product market, competition and own ability factors. The functions differ depending of type of channel, the length of channel, the place of participant is the channel and so on. Philip Kotler and Gary Armstrong list down the functions of channels. They are given below:

i) Information
ii) Promotion
iii) Contact
iv) Matching
v) Negotiation
vi) Physical distribution
vii) Financing
viii) Risk assumption

i) Information

Information is invisible input with visible output. Channel members gather and disseminate information a from producers to consumers and

consumers to producers. The way the information flows enables every player to perform his role ably. The information flow is depicted below:

Manufactures <--> Distributors <--> Buyers.

ii) Promotion:

Channel members do a good lot of promotion. Advertisement, salesmanship, publicity and sales promotion are resorted to be channel participants. Channels rope in media between producers and consumers.

Dealers <--> Media <--> Buyers

iii) Contact

Finding and contacting prospective buyers. Channel participants through their information network can word on sales leads.

Dealers <--> Sale Leads <--> Prospective Buyers

iv) Matching

Shipping and filling the supplier from the producers to meet the needs of the consumers. This involved assembling, grading, building-bulk, breaking-bulk. Reliability, packaging and delivery.

v) Negotiation

Agreement of price, mode of payment, physical delivery, title transfer etc.

vi) Physical distribution

This involves transportation, storage and delivery and involves product flows title flow and payment flow.

: Product Flows

: Manufacture → Mercantile dealers → Buyer

: Title Flows

: Manufacture → Mercantile dealers → Buyer

: Payment Flows

: Manufacture →Dealers → Buyer

vii) Financing

Channel members finance producers sometimes by paying in advance of supply of goods. Similarly one channel participant might finance another by advance payment of extending credit.

viii) Risk assumption

Any venture involves risk. Channel participants assume risk of credit extensions business risk, obsolescence risk, market risk, etc.

Functions of channel vary with the type of functionary and whom the functionary is helping. Wholesalers serve both producers and retailers, retailers serve both wholesalers and consumers.

6.7. CHANNEL UTILITIES

Channel comprises of an organised network of agencies and institutions that perform their stipulated activities adding utility to a product of services. Channel utilities are categorised into various types. They are, (i) in Place Utility, (ii) Time Utility, (iii) Form Utility and (iv) Information Utility.

Place Utility

It refers making availability of goods and services in a specific place of location the is most convenient to the customers.

Time Utility

It refers making availability of goods and services to the customers when they desire to buy.

Form Utility

It refers making availability of goods and services prepared, processed and ready to use and in proper conditions to the customers.

Information Utility

It refers assisting the customers to understand the special features and benefits of the products. Answers to the queries raised by the customers about the products are also given.

The selected channel for the distribution of goods and services in domestic market as well as export market should fulfil all the above utilities. These utilities contribute to competitive advantage in the export market and to add product value. So a careful planning is required for channel selection for the export market.

Channel strategy is an important element of export marketing. The multinational enterprises distribute their goods and services through their subsidiaries functioning in various countries. So channel strategy is not a problematic aspect to the multinational enterprises. Small and medium scale enterprises so far functioning in domestic market have to seriously plan for choosing specific channel into export market. Distribution is an essential aspect of the marketing programme of any product and it must be appropriate to the product design and features, price and other aspects related to total marketing programme.

6.8 PHYSICAL DISTRIBUTION

Observing the environment in the overseas market helps to ascertain the appropriate distribution system. Physical distribution policies in foreign market are quite different from the domestic market. Expenses relating to physical distribution represents a major share of the final selling price in foreign markets than in domestic markets. In export marketing, exporters should take care of problems caused by humidity, pilferage, improves handling and inadequate marking. Exporters have to fulfill shipping and insurance formalities. Fulfilling documentary procedures is an essential aspect in international shipments.

Say Onkvisit and John J.Shaw in their book International Marketing have stated that in the developed economies, the distribution sector typically accounts for one their of the Gross Domestic Product (GDP). Furthermore international logistics costs can account for 25 to 35 percent of the sales value of a product, a significant difference from the 15 to 18 percent for domestic shipment.

Cost and transportation are important decision areas of physical distribution.

There are three modes of transportation such as air, water (ocean and inland) and land (rail and truck). Ocean and air shipments are suitable for transportation between countries. Inland water, rail and highway are more appropriate for domestic and inland transportation. Selection of appropriate mode of transport is influenced by the following factors.

a) market location

b) speed and

c) costs

Market location determines mode of transport. Rail or truck can be used to transport products in contiguous markets. Adjoining markets or markets having common borders are known as contiguous markets. Markets of United States, Canada and Mexico are called contiguous markets. Ocean or air transport is used to transport goods between countries or continents.

Philip Kotler has defined Physical Distribution as, planning, implementing and controlling the physical flow of materials, final goods and related information from points of origin to points of consumption, to meet customer requirements at a profit'. Physical Distribution is otherwise called Marketing Logistics. The basic objective of marketing logistics is to provide a targeted level of consumer service at the least cost. Integrated Logistics Management is a felt need of the hour which emphasises teamwork, both inside the company and among all the marketing channel organizations, in order to improve the performance of the entire distribution system.

Warehousing is an important component of physical distribution. Exporters should decide of how many and what types of warehouses they need and where they will be located. In exporters have a large number of warehouses, goods can be delivered more quickly to customers. Establishing a large number of warehouses will increase warehousing costs. Exporters should balance the level of customer service against distribution costs. The Federation of Indian Exporters Organisation (FIEO) has taken efforts to establish warehouses for Indian products in the emerging world markets for the purpose of quick and immediate delivery of goods to the buyers. This is a unique feature of international physical distribution.

Speed in another important factor influencing mode of transport in export market. When speed is given preference in shipment, air transport is quiet appropriate mode of transport for distribution. Air transport is preferred for the export of perishable products. Direct flight is given preference for the shipment of perishable cargo. Direct flight reduces transport period. Shorter period in transport reduces spoilage and theft. Air transport accounts for only one percent of total international freight movement. Though the cost of transportation is very high in air transport, it speeds up delivery, minimises the time the goods are in transit and paves the way to achieve greater flexibility in delivery schedules. Air cargo is most appropriate for high value products.

Cost is also one of the factors determining mode of transport. Cost is an important decision making area in physical distribution in export market. Cost is associated with speed of transport and speed of delivery of exportable commodities.

Rankings of Transportation Modes

(1 = Highest Mode)

Modes of Transport	*Speed (door to door delivery mile)*	*Dependability (meeting schedules on time)*	*Capability (ability to handle various time)*	*Availability (No. of geographic points products)*	*Cost (per ton served)*
Rail	3	4	2	2	3
Water	4	5	1	4	1
Truck	2	2	3	1	4
Pipeline	5	1	5	5	2
Air	1	3	4	3	5

Source: Carl M.Guelzo, Introduction to Logistics Management (Englewood Cliffs, NJ, Prentice Hall, 1986, p.46)

6.9 SEVER RULES OF INTERNATIONAL DISTRIBUTION

David Arnold in his research paper "Sever Rules of International Distributions published in Harvard Business Review" November-December, 2000, has expressed that, "companies entering markets in developing countries

learn quickly that they need to word with local distributors-but those partnerships nearly always blow up in the end. Much of the blame lies with the multinationals themselves. They need to understand how their new partners are different from the ones at home".

David Arnold has given the following sever rules for International Distribution.

1. Select Distributors. Don't let they select you,
2. Look for distributors capable of developing markets, rather that those with a few obvious customer contacts,
3. Treat the local distributors as long term partners, not temporary market-entry vehicles,
4. Support market entry by committing money, managers and proved marketing ideas,
5. From the start, maintain control over marketing strategy,
6. Make sure distributors provide you with detailed market and financial performance data, and
7. Build links among national distributors at the earliest opportunity.

6.10 CHANNEL DECISION

Global marketers should decide in advance the target market and assess the needs and preferences of the target market for channel decision. Global marketers have to concentration of the following factors for the purpose of deciding a suitable channel for distribution.

- location of the potential buyers,
- Information requirements of the potential buyers,
- extent of sensitiveness of the potential buyers towards price,
- service preferences of the potential buyers and
- cost of providing services through a particular channel.

Channel strategy of the global markets depends upon the overall marketing objectives in each national market. In channel strategy, global marketers have two options. The first option is to provide incentives to

independent channel agents/firms functioning in different countries in order to induce and persuade they to promote the products of the company. The second option is to establish company-owned outlets/establishments for the products promotion. Franchised outlets may also be opted for the promotion of the products of the company.

Export Distribution Channel decision depends upon the following four important factors:

- Customers Characteristics,
- Products Characteristics,
- Intermediaries and
- Environment

Customer Characteristics

Channel decision of a global marketers depends upon the characteristics of customers in various countries. Customer characteristics such as, number of customers, geographical distribution, income, attitude towards shopping, shopping culture and reaction towards various selling methods and sales promotional tools will vary from one country to another country. Therefore it become≤ an important task of the exporters to choose appropriate channel for distribution based of the varying customer characteristics. In the international market, number of channel agents depends upon the number of customers prefer to buy products of the company.

Product Characteristics

Product characteristics influence of channel decision and strategy. Product characteristics such ass perishability, degree of standardization, bulk, service requirements and unit price influence of channel design and strategy. In [illegible] price of the product is very high, the number of distribution channel will be minimum. Sometimes companies may adopt direct selling instead of using channels for marketing the products of high unit price. Moreover a comprehensive demonstration is also required to highlight the inbuilt product features. It needs a well trained sales force. A limited number of channels are used for marketing of computers, photocopiers and other sophisticated industrial products. Door-to-door campaign is required to market certain products such as toiletries, cosmetics etc. A large number of sales force is needed to market such

products. Marketing of perishable products needs special attention. Products should reach consumers in satisfactory condition. It needs careful planning for channel decision. Similarly for bulky products handling must be minimum and there must be a minimum number of times products change hands between channel intermediaries before the products reach the final users. Number of channel intermediaries must be limited in marketing of bulk products.

Intermediary Characteristics

Characteristics of intermediaries influence channel strategy and channel design. In general intermediaries is to maximise their business rather that the business of the companies. In international market, one intermediary will do business for more that one company. They concentrate of products having demand in the international market. They will not attempt to create market for new products. This is a serious problem to the exporter introduces a new product in the global market. Intermediaries may not come forward to market the new product introduced in the global market. In this situation, companies introducing new products are forced to establish their own outlets and to do direct distribution. Intermediaries will support the companies whose products and brands are in demand in the international market and avoid taking efforts to market the new products needed 'push' in the market. The practice of the intermediaries in the international market is known as 'cherry picking'.

Credit worthiness, entrepreneurial spirit and talents creativity, the spirit of making business success are inherent qualities of a distributor or agent. Global marketers have to observe such qualities of the distributors before nominating them as sold distributing agent for their products in international market. Qualities of intermediaries influence channel design and strategy. The distributors are expected to provide valuable information about changing customers needs and preferences and competitive products to the manufacturers. Exporters may replace distributors in they do not do the distribution business effectively.

Environmental Characteristics

Environmental characteristics in the global market influence channel design and strategy. Economic, social, political and legal environment in the international market should be observed by the global marketers while deciding channel strategy and design. Of late people in all parts of the various countries

prefer to shop in bit (mega, stores, or multiple stores where all types of products are made available. This type of culture make the manufacturers to reduce the number of distributors and reduce number of shops. Consumers buy large quantity of consumer goods as they have refrigerators to story them and they prefer multiple stores or supermarkets or mega shops to buy a large quantity of their requirements.

Warren J.Keegan has stated in his book 'Global Marketing Management' that in 1970s there was a severe drop in grocery outlet density in nearly all countries. Sir countries (Australia, the United States, South Africa, the Netherlands, Great Britain and Sweden, now have one outlet or fewer per thousand population. A number of other countries (Ireland, Belgium, Germany) have experienced more than 50 percent reduction in outlet density". There may not be any scope to the small level retail outlets with limited number of products in the international market in the days to come.

6.11. DISTRIBUTION CHANNEL AND CHANNEL STRUCTURE CONSUMER PRODUCTS

Manufacturers of consumer products can market their products in the international market through the channels listed below:

- selling products to customers directly (door-to-door sales) campaign
- selling products through mail-order business (selling, using pamphlets, catalogues and other printed materials revealing product features,
- selling through manufactures-owner outlets (stores)

Of late, mail-order business becomes popular in the international market. Availability of time in very limited to the consumers to go to the showroom where products are displayed to identify the features of the comparative products for purchase decision. Catalogues printed in catching colours and design containing all product features serve the consumers better for their purchase decisions.

Door-to-door selling becomes expensive one. It requires a large number of sales force. Monetary compensation to the sales force will increase price of goods. But this channel is also required to market certain products such as cosmetics, toiletries, vacuum cleaners, kitchen wares, household brushes etc.

Door-to-door selling serves the purpose of product demonstration also which will induce the consumers to buy.

'House party selling arrangement' is an extension of door-to-door selling. This is popular if the United States and Europe. The sales representative will take efforts to arrange an informal or semi-social gathering in the home of a cooperating consumer for the purpose of describing and demonstrating goods he or she is selling. This type of selling in most appropriate one for marketing of products such as cosmetics and kitchenwares.

Manufactures-owned story in another channel for marketing of goods in the international market. This channel in widely used in Japan by the consumer electronics industry. Singer, the U Company created a worldwide chain of company-owned and operated outlets for selling and servicing sewing machines.

Marketing Channel Alternatives – Consumer Products

Manufacturer → Mail Order → Customers

Manufacturer → Door to Door → Customers

Manufacturer → Manufacturer-owned stores → Customers

Manufacturer → Manufacturer's Salesforce → Retailer → Customers

Manufacturer → Agents/Brokers → Retailer → Customers

Manufacturer → Manufactuer's Salesforce → Wholesaler → Retailer → Customers

Manufacturer → Wholesaler → Retailer → Customers

Source: Warren J.Keegan, Global Marketing Management, p.542.

6.12. CHANNEL STRUCTURE INDUSTRIAL PRODUCTS

Marketing channels for the industrial products are listed below:

i) Manufacturers Salesforce

ii) Distributors or Agents and

iii) Wholesalers

Manufacturers reach customers through wholesalers. Manufacturers will reach customers through manufacturers' salesforce and wholesalers.

ufacturers can reach customers through distributors or agents. nufacturers can reach customers through distributors or agents or olesalers. The type and pattern of channel will vary country to country based their marketing programme and strategy. Kyocera Corporation of Kyoro, pan utilised its own sales force (team) at home market and international market pecifically in the US, for marketing ceramic microchip covers and became a eader in the 1.5 billion global market for ceramic microchip covers.

Marketing Channel Alternatives - Industrial Products

Manufacturer → Manufacturer's Salesforce → Customers

Manufacturer → Manufactuer's Salesforce → Wholesaler →

Customers Manufacturer → Wholesaler → Customers Manufacturer →

Distributor or Agent → Customers Manufacturer → Distributor or Agent → Wholesaler → Customers

Source: Warren J.Keegan, Global Marketing Management, p.545.

Philip Kotler stated that "designing international channels that take into account all the necessary links in distributing the seller's products to final buyers, including the seller's headquarter organization, channels, between nations and channels within nations".

Whole – Channel Concept for International Marketing

Seller's Selles headquarters Organisation for International marketing	Channels between nations	Channels within nations	Final used or buyer

Source: Philip Kotler, Principles of Marketing, p.648.

William J.Stanton has classified middleman operating in international trade into four groups. They are, i) Domestic foreign trade middlemen's wholesalers located in the seller's home country that sell abroad, ii) Foreign trade middlemen located abroad: Wholesalers located in countries other than the seller's country that buy goods from abroad, iii) Wholesalers and retailers operating within foreign markets, iv) Manufacturers' sales branches and sales offices located in foreign countries.

6.13 NUMBER OF CHANNEL PARTICIPANTS

Dr.M.Selvam in his study material prepared for the students of international business administration has highlighted the factors determining the number and location of channel members and direct and indirect channel. The factors are given below and the study material in duly acknowledged here.

Hyundai Motor India Ltd selling Santro and Accent brand cars in India had a dealer network with 70 carefully selected dealers nationwide. Bharat Petroleum has 451 bunks. Milton Plastics has 500 dealers. Colgate has some 450 stockists and sells to about 8,50,000 outlets directly. Tiger Bala and Tiger Oil are distributed by 850 stockists. How these numbers are arrived at, How many wholesalers? How many retailers? How many stockists? How many dealers? These questions are difficult to answer. But a manufactures has to decide of these crucial questions.

The answer to this question depends on several factors. The product nature, the market nature, the competition nature, the distribution policy, the after-sale service requirement, etc., determine the number and location of channel members.

FACTORS DETERMINING CHANNEL PARTICIPANTS

i) Product nature
ii) Market nature
iii) Competition
iv) After-sales-service
v) Distribution policy
vi) Organisational factors
vii) Level of service

Product Nature

It comes first, In the case of industrial goods either direct channel involving no channel member or an indirect channel involving an industrial distributor is used, because, the product needs are concentrated. In the case of consumer durables, a full-scale channel is needed because distributed distribution is needed. In the case of consumer-softs even more intensive

distribution is required. So variety of retailers crowd there. In the product is he-value and hi-tech number of retail outlets is less than, in the case of low-tech, low-unit-value goods.

Market-Nature

The market nature is the next factor. Consumer market or industrial market, mass market or class market, up-end market or low-end market and dispersed market or concentrated market are the different market forms. Accordingly number of locations varies. In the following table the different situations are portrayed.

Nature of Market	Channel Members	
	Number	Location
Consumer	More	Dispersed
Industrial	Less	Concentrated
Mass	More	Dispersed
Class	Less	Exclusive
Low-end	More	Dispersed
Hi-end	Less	Selective
Distributed	More	Dispersed
Clustered	Less	Exclusive

The essential thrust is going as close as possible to the consumer. Going close has costs as well as benefits. We have to be balance costs and benefits.

Competition

The nature of competitions and competitor strategies come next. If competition is heavy, intensive distribution through more number of channel members is practised so that no gap is left for the competitor to enter into and gain leverage. If competitors allow their products handled by a mass of retailers, better our products are also handled by the retailers. It need not be so. You can always our own sales outlets; but it is costlier and your attention is divided between production and marketing. Yet Beta continues to do this. "Eureka"

believes in direct marketing which is at variance with what its competitors are doing.

After-Sale Service

After-sale Service requirement is another factor. In that case own-sales outlets are good. Else, the retailers be trained and compensated for service rendered. Else, selling and after-sale service be delinked and the latter function is done by company service engineers who visit places periodically.

Distribution Policy

The Distribution Policy of the company comes next. Intensive selective and exclusive distribution policy alternatives exist. The intensive distribution policy has wide market coverage in order to give the widest exposure to the product. At its extremity, every outlet is carrying the product. Convenience goods need intensive distribution. Colgate could reach 50000 of 5,60,000 villages in India, while most other fast moving consumer-goods producers can reach only 20000 villages in this country. To reach more villages more channel participants are needed. Now HLL is reaching villages through NGOs former in villages. Selective distributions believed is product exposure to selected niche markets. Limited set of outlets deal in the products then. Shopping goods like jewellery, furnitures, etc., require selective distribution. Here competition among retailers is reduced and the limited number of retailers are loyal to the manufacturers. Exclusive distributions implies one outlet for every market place or a geographic territory. Exclusive distribution implies the channel member is barred from dealing in competitor's products.

Organisational Factors

The Organisational factors follow then. With more product lines or products produced/distributed a short-channel involving less number of channel member can be thought of. If the organization wants to retain control over channel members, exclusive channels are better used. Companies with strong financial resources can plan direct or exclusive distributions, otherwise, the long, non-controllable channel has to be used.

Level of Service

The Level of Service, the variety of service, the pace of service, the cost of service, the perceived value of service, the willingness to pay for value

received, etc. influence the location and number of channel members. Higher service level, elaborate variety of service, faster service, low-marginal cost of service, high perceived value of service and more willingness of a consumer to pay for value-added, would lead to using short channels, nevertheless well dispersed.

6.14 DECISION AS TO DIRECT OR INDIRECT CHANNEL

Let us explain first direct and indirect channels.

Direct Channels

Direct channel involves the produced directly reaching the ultimate consumer/uses without any merchant intermediary. Direct channel is catching up in consumer goods with 'demassification' or 'fragmentation' of mass markets. Lack of disposable time, traffic congestion, high cost of driving, car parking problems, long queues at check-posts/toll-gates are some negative forces that make people go for direct purchase from producers/wholesalers/big retailers without further intermediaries. Internet, telephones and credit cards are positive factors that contributed to direct channel growth. Besides product standardization, brand equity and third party logistics service growth have enabled direct channel to fluorish in these days. In industrial goods direct channel is generally the case because of fewer number of buyers. Business-to-Business (B2B) marketing in a fluorishing from involving direct channel. Forms of direct channel include party-plan direct selling, tele-marketing, net-marketing, automatic-rending, mail-order-selling, catalog marketing, electronic shopping, door-to-door marketing, etc.

Indirect Channels

Indirect channels involve using merchant middlemen in the distribution of goods.

Choice between direct and indirect channel

Several factors influence the choice between direct and indirect channel. These are tabulated below:

Sl. No	*Factors*	*Pro-direct Channel*	*Pro-indirect Channel*
i)	Market Size	Small	Big
ii)	Market Concentration	High	Low
iii)	Intended Distribution	Selective	Intensive
iv)	Product Standardisation	More	Loose
v)	Unit Price	Large	Small
vi)	Type of Product	Industrial	Consumer
vii)	After-sale Services needs	Less	More
viii)	Consumer Awareness	More	Less
ix)	Product Technicality	High	Less
x)	Producers' Financial Strength	High	Low
xi)	Producers' Marketing Strength	High	Low
xii)	Producers' Marketing Logistics Abilities	More	Less

6.15 INTERNATIONAL MARKETING RESEARCH

Marketing Research paves the was to assess market opportunities and certain buying motives and preferences of customers in the target market. It ascertains the scope for market expansion and introducing new products. It is systematic collection, recording, processing and analysing the market related data for the purpose of ascertaining the consumers' perception about the product buyers preferences, their buying motivated and their expectations from the product scope of market expansion and new pr luct development. Market research is para of marketing research assessing market potentials is the target market.

Crisp in his book Marketing Research has defined Marketing Research as, "the systematic objective, and exhaustive search for study of the facts relevant to and problem in the field of marketing".

Cundife and Still have defined Marketing Research as, "the systematic gathering and analysing of data about marketing problems towards the end of providing information useful in marketing decision making".

William J. Stanton, Michael J. Etzeh and Bruce J. Walker in their book, 'Fundamentals of Marketing' have defined Marketing Research as "the development, interpretation and communication of decision oriented information to be used in the strategic marketing process".

Philip Kotler has expressed that Marketing Research in the function that links the marketer to consumers and the public through information. It is used to identify and define marketing opportunities and problems, to generate, refine and evaluate marketing actions, to monitor marketing performance, and to improve understanding of the marketing process. Every marketer needs market research. Marketing research attempts to assess customer satisfaction and buying behaviour, study the impact of marketing mix over the marketability of products.

American Marketing Association defined Marketing Research as, "the systematic gathering, recording and analysing of data about problems relating to the marketing of goods and services".

6.16 SCOPE OF INTERNATIONAL MARKETING RESEARCH

Marketing research covers a wide range of research studies relating to the marketing of goods and services. Product research and market research are potential subjects of marketing research.

Product research deals with studies relating to product positioning, new product development, pricing strategies of the product, promotion strategies and distribution strategies.

Market research deals with studies relating to consumer behaviour and buying motives, analysis of market share for product lines, buyer motivation research, advertising effectiveness and effectiveness of sales promotion tools. Philip Kotler, Principles of Marketing is the source for the following factors affecting international marketing.

International Marketing research deals with studies relating to

i) demographic characteristics and their relevance in international marketing.

- demographic characteristics

  size of population
  rate of population growth
  degree of urbanisation
  population density
  age structure and composition of the population

ii) Geographic characteristics and its impact in international marketing.

- geographic characteristics

  physical size of a country
  topography
  climate conditions

iii) Economic factors and their relevance towards international marketing.

- economic factor

  per capita GDP
  income distribution
  growth of GDP
  Investments to GDP
  Savings to GDP
  Taxation policies

iv) Technological factors and their influence of international marketing.

- level of technological skills
- existing production technology
- existing consumption technology
- education levels

v) Sociocultural factors and their influences of international marketing.

- Sociocultural factors

  dominant factors
  lifestyle patterns
  ethnic groups
  linguistic fragmentation

Trade Intensity Analysis is a para of international marketing research. This analysis is based on secondary data. The percentage of India's share in total imports of the various countries is analysed for the purpose of ascertaining in which country's imports, the share of Indian products is very high.

This type of research is very much useful to identify emerging markets for Indian products in the world market. Changes in the economic and political policies of developed countries can be studied to assess export market potentials of Indian products.

China is entering as a member in the World Trade Organisation. In this situation, an indepth study can be undertaken to assess export market potentials in China for Indian products. Once China becomes member of the World Trade Organisation, it has to follow international trade regulations prescribed by WTO. Impact of GATT, in India's Foreign Trade can be studied to assess prospects and problems of India's Foreign Trade.

Addressing the Annual Convocation of the University of Mumbai (December, 2001) on 'India and Globalisation' the RBI Governor Mr. Bimah Jalan said that by the most common measure of globalisation - openness to trade and a country's participation in trade - India's globalisation in insignificant. India's share it world exports is a minuscula 0.1 percent. India's achievements it globalisation in terms of openness to trade and foreign investment has been minuscule. "It may of the world were drawn on the scale of a country's participation in trade, India with a population of more than 1000 million will occupy a smaller area that Singapore with a population of only 3 million". Another measure of globalisation in a country's participation in international capital flows and here too India's share in it significant. Annual FDP across the global is more than 1000 million, while FDP inflows into India in $2.3 billion only.

International marketing research will pave the way to find out causes for the above problems and suggest remedial measures to solve them.

Companies participating the world market can undertake research study of increasing export competitiveness in the world market. This research study will find the ways and means to increase export competitiveness and increase export market share. Studying the impact of globalisation in the export market potentials of various sectors of the economy is also a potential scope of international marketing research.

William J.Stanton, Michael J.Etzeh and Bruce J.Walker in their book 'Fundamentals of Marketing' have given the following marketing research projects. They are listed below:

	Market Research Projects	Objective
1.	Concept Test	To determine in a new product idea is attractive to potential customers.
2.	Copy Test	To determine in the intended message is an advertisement is being communicated effectively.
3.	Price Responsiveness	To gauge the effect a price change would have on demand for a brand.
4.	Market-share Analysis	To determine a firm's proportion of the total sales of a product.
5.	Segmentation Studies	To identify distinct groups within the total market for a particular product.
6.	Customer Satisfaction Studies	To monitor how customers feel about an organisation and its products.

6.17 STUDIES OF MARKETING RESEARCH

i) Market measurement studies. These studies are aimed as obtaining quantitative data of potential demand in each individual market segments over a future period. These data relate to market potential on sales potential or both. Market measurement data are particularly helpful in planning over-all marketing strategy.

ii) Studied of influences of controllables. The widest variety or marketing research studies focus on the influences of controllables-product, price, distribution and promotion. These studies help to play marketing mix strategies needed in future.

iii) Studies of the competitive situation. These are intelligent type studies specifically designed to analyze competitors marketing practices and

policies and to plan competitive strategies to meet competition in the export market.

iv) Studies of influences of uncontrollables. Relatively few market research studies focus directly on the influenced of uncontrollables. This is because published information in nor readily available. For e.g., consumer intentions, credit, age, income etc., are the non-available information. Therefore, only a few studied are undertaken to study the influenced of uncontrollables; which are peculiar to the company's situation.

It include studying consumer characteristics, opinions and attitudes. Marketing research relating for buying motives and buying behaviour will help to determine product promotion strategies.

WHO IS THE CUSTOMER?

The Changing Pattern of Needs

Now a days we are a 'want' rather than a 'need' society. Customer today in much more knowledgeable and discerning Lifestyle choices are more complex Quality is a given Emotional needs are more important Media much more widespread and persuasive The potential customer is anyone why walks into your store but.

You can influence who walks into your store through advertising, through the store environment and through the product that you sell and the price you sell in as ***Why do you want your customer to be?***

What does the customer want?

They don't know what they want so how can we Market research for appeared can only be partially accurate The "Greet Giant' principle. Some things are certain products wear out we will replace they we will but gifts or make special purchases

- We like to try something new
- We are influenced by what we read, hear and watch
- We want to be a unique member of our tribe.

(Sources The Economic Times, 12.8.2001)

6.18 MARKETING RESEARCH PROCEDURE

The following table clearly reveals the tasks to be carried out by the marketing researchers.

Sixteen steps in the Research Design

Questions faced	Steps to take
1. What is needed to measure the outcome of the alternative solution?	1. Decide the subjects to which data are needed.
2. What specific data are needed for text approach	2. Examine the time and cost consideration.
3. From whom are such data available	3. Write exact statements of data to be sought.
4. How should primary data be obtained	4. Search and examine relevant secondary data.
a. What are the types of data	5. Determine remained data gaps.
b. What general collection methods shall be used	6. Define the population from which primary data may be sought.
c. How shall the sources be contacted	7. Determine the various need facts opinion and motives. Plan for obtained duty by survey observational or experimental methods
d. How to secure data from the sources	8. Plan for obtained data by survey organizational or experimental methods
e. Shall there be a complete count of the population on sample drawn from its how chosen	9. In using survey decide whether to contact respondents by telephone by mail on in person.
f. How will the field word be conducted	10. Consider the questions and forms needed to elicit and record the data

... will the data be processed and presented	11. Decide on the coverage of the population: (i) choose between complete enumeration or sampling. ... sampling decide whether to select from the whole population or restricted portions of it. ... how to select sample members. ... and schedule the field work. ... the personnel requirements of the field study. 14. Consider editing and tabulating requirements. 15. Anticipate possible interpretation of the data. 16. Consider the way to finding may be presented.

Source: David J.Luck, Hugh G.Wales and Donald Taylor, Marketing Research, Prentice Hall, India).

From this table one can understand the following major steps involved in connecting marketing research.

There are

i) Defining the problems and research objectives.
ii) Developing the research plan.
iii) Implementing the research plan.
iv) Deciding of information needed and sources of information.
v) Deciding research methods, research instrument (sampling plan and contact methods).
vi) Collecting the information
vii) Analysing and interpreting the processed data
viii) Preparation of report and conduct follow-up.

6.19 DOMESTIC Vs. INTERNATIONAL MARKETING RESEARCH

Technically there is no difference between domestic research and international marketing research. But international marketing research has certain additional complexities due to diverse national characteristics and requirements. Fundamentally, the differences between domestic and international marketing research are due to the following factors.

(i) The complexity of research design, due to operation in a multi-country, multi-cultural and multi-linguistic environment.

(ii) The lack of secondary data for many countries and product markets.

(iii) The high costs of collecting primary data, particularly in the developing countries.

(iv) The problems associated with co-ordinating research and data collection in different countries.

(v) The difficulties of establishing the comparability and equivalence of data and research conducted in different contexts.

(vi) The intra-functional character of many international marketing decisions.

(vii) The economics of many international investment and marketing decisions.

6.20 INTERNATIONAL MARKETING RESEARCH STRATEGY

Some companies are in a position to adopt undifferentiated marketing on a world-wide scale. Whereas the other companies follow differentiated marketing. By and large, most of the companies prefer a concentrated marketing strategy. These companies select a few markets for thorough exploitation. Wrong selection of markets would result in loss to the company.

Therefore selection of market in all the more important for any company. International marketing research helps for proper selection of markets.

The systematic procedure which a company should follow in the case of international marketing is explained as follows:

i) The research is based principally on the relatively inexpensive type which is called as desk research.

ii) Initially covers all the potential export markets

iii) Eliminates, in successive stages, the less suitable markets, and

iv) Ranks the remained export markets in some reasonable order of priority.

After this, the expensive field research can be undertaken in the selected priority export markets.

Desk research, Data collection for the assessment of foreign market opportunities may be undertaken through primary (originals field) research and secondary (Desk) research.

Desk research in the first phase of international market research. Is involved systematic collection and analysis of all published and unpublished information available within and outside the organization. Past sales records, enquired received, noted submitted by the company officials, complaints received from customers etc. are all the sources of internal information. External information refers and published source which may provide data on the problem to be analysed.

Field Research

Analysis of data collected from desk research sources will reveal the gaps which will have to be analysed by going directly to the market. This research (primary/field/original) involved in collecting the information from informants by means of observation, interviews, questionnaires and schedules.

Field research can be carried on with the help of personal interview, telephone interviews and store checks. On the three methods, personel interview in the most dependable and reliable.

6.21 INTERNATIONAL MARKET POTENTIAL ASSESSMENT THROUGH MARKETING INFORMATION SYSTEM

There are a number of analytical research techniques that may be used to assess potential in different international markets. This assessment is of great importance in planning aspect of international marketing management.

The international marketer has to collect the background information of the countries in which he is interested. Countries from which orders or enquires have been received should be assessed first. Besides, the international marketer must investigate as many markets as possible, so that no export opportunities are overlooked. Exporters should they direct their initial attention to those markets that seen to offer the best opportunities.

International Marketing Information System paves the way to ascertain the factors such as, Economic Factors, Political and Government Factors, Infrastructural Facilities, Legal Factors and Competitive Factors that influence International Marketing and its Growth.

I) General Factors

i) **Economic factors:** The size of GDP and the rate of growth, resistance to recession, dependence or imports and exports, balance of payments position, foreign exchange position, rate of inflation etc., are some of the important economic factors used to identity and measure export market potential. Marketing Research Department should collect information relating to economic fundamentals of countries participating in overseas market.

ii) **Political and government factors:** Stability of the Government attitude towards private and foreign investments etc., are also to be taken into active consideration for identifying export market. Marketing research department should collect information relating to political and investment policies of competing countries in the world market.

iii) **Infrastructural facilities:** Efficiency of transport, port facilities, availability of managerial, technical and office personnel etc will measure the extend of market potential in overseas market. Marketing information relating to prevailing infrastructure facilities in the competing countries of the world market will help to design suitable marketing strategies.

Tax rates, availability of financial resources and legal factors are also the other general information which are to be considered by international marketers for their entry in international market.

II) Information about Markets

Import regulations such as licenses, quotas, and other relevant taxes are to be known to the international marketers for their international marketing decisions.

Transport facilities, distributive patterns, availability of credit and legal rules relating to business etc. are the other market oriented information determining the extend of export business.

III) Competitive Factors

Marketing Information relating to nature of products, their financial strength, production capacity marketing infrastructure etc. about competitors are useful to the international marketers to measure the market potentials for their products in foreign market.

6.22 INTERNATIONAL MARKETING INFORMATION SYSTEM

Warren J. Keegan, in his book Global Marketing Management has stated that the global marketer must know where to go to obtain information, the subject areas that should be covered, and the different ways that information can be acquired. Information acquired must be processed in an efficient and useful way. The process of information acquisition is known as scanning.

He has highlighted the category of international marketing information system and its coverage in his book. It is given below:

Categories for a Global Business Intelligence Sy

Category	Coverage
I. Market Information	
1. Market potential	Information indicating potential demand for products including the status and prospects of existing company products in existing markets.

2. Consumer/Customer attitudes and behaviour	Information and attitudes behavior and needs of consumers and customers of existing and potential company products. Also included in this category are attitudes of investors toward a company's investment merit.
3. Channels of distribution	Availability effectiveness attitudes and preferences of channel agents.
4. Communications media	Media availability effectiveness and cost
5. Market sources	Availability quality and cost
6. New products	Non-technical information concerning new products for a company (this included products that are already marketed by other companies).
II. Competitive Information	
7. Competitive Goals objectives. Definition of business strategy the "design" and rationals of the and plant company	
8. Competitive functioning strategies plant and programme	Marketing Target markets product price place promotion. Strategy and plant Finance manufacturing R&D and human resource strategy plant and programs
9. Competitive operation	Detailed intelligence of competitor operations production shipments employed transfers morale etc.
III. Foreign Exchange	
10. Balance of payments Government reports	
11. National and real interest rates	Expert estimation

12. Inflation rate compared to weighted trading partner average	PPS theory
13. Estimate of International Competitiveness	Export judgment
14. Attractiveness of country currency and assets to global investors	Currency demand
15. Government policy re-country competitiveness	Expert assessment
16. Country monetary and fiscal policy	Expert assessment
17. Spot and forward market activity	Market reports
18. Expectations and opinions of analysis traders bankers economist business people	General assessment
IV. Prescriptive Information	
19. Foreign taxes	Information concerning decisions intentions and attitudes of foreign authorities regarding taxes upon earnings dividends and interest.
20. Other foreign perception and laws	All information concerning local regional or international authority guidelines rulings laws decrees other than foreign exchange and tax matters affecting the operations assets or investments of a company.
21. Home country prescription	Home country incentives controls regulations restraints etc. affecting a company
V. Resource Information	
22. Human resources	Availability of individuals and groups employment candidates sources strikes etc.

23. Money	Availability and cost of money for company uses.
24. Raw material	Availability and cost
25. Acquisition and mergers	Leads on other information concerning potential acquisitions mergers or joint ventures.
VI. General conditions	
26. Economic factors	Macroeconomic information dealing with broad factors such as capital movements rates of growth economic structure and economic geography.
27. Social factors	Social structure of society customs attitudes and preferences.
28. Political factors. "Investment climate" meaning of electrons political change	
29. Scientific Technological Factors	Major developments and trends
30. Management and administrative practices	Management and administrative practices and procedures concerning such matters as employed compensation report procedure.
31. Other information	Information nor assignable to another category.

Source: Warren J.Keegan,"Global Marketing Management" Fifth Edition, p.221-228.

QUESTIONS

1. What is distribution mix?
2. What is direct channel?
3. What is indirect channel?

4. Explain the role played by various types of intermediaries in the export market.
5. Discuss the factors influencing channel decision and development.
6. What is export marketing research?
7. Explain export marketing research process?
8. Discuss the importance of international marketing information system.

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MODEL QUESTION PAPER
Paper 2.4: INTERNATIONAL MARKETING

Time: 3 Hours Max. Marks: 100

SECTION - A (5 x 8 = 40)

Answer any **Five** questions

All questions carry equal marks

1. What is international marketing? Explain its nature and scope.
2. What are the factors influencing consumer behavior? Explain them.
3. Explain product positioning strategy in the export market.
4. What is counter trade? Explain its forms.
5. What is international transfer pricing?
6. What do you understand by international advertising?
7. What is distribution mix?
8. Explain the importance of sales promotion?

SECTION - B (4 x 15 = 60)

Answer any **Four** questions

All questions carry equal marks

9. What do you understand be ethnocentric and polycentric approach in international marketing?
10. What is new product development? Explain the steps involved in new product development process.
11. What is market segmentation? Explain the basis of market segmentation.
12. Discuss the steps involved in consumer decision making process.
13. What is brand? Explain importance of branding in export market.
14. What do you understand by export pricing? Explain the factors influencing export pricing.
15. What are the merits of international trade fairs and exhibitions?

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